

BROOKLYN SCHOLARS CHARTER SCHOOL



Financial Statements and Additional
Information as of and for the Year Ended
June 30, 2017 and Independent Auditor's
Reports

BROOKLYN SCHOLARS CHARTER SCHOOL

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Independent Auditor's Report

To the Board of Trustees
Brooklyn Scholars Charter School

Report on the Financial Statements

We have audited the accompanying financial statements of Brooklyn Scholars Charter School (the "School"), which comprise the statement of financial position as of June 30, 2017 and the related statement of activities and change in net assets and statement of 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 School's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Brooklyn Scholars Charter School as of June 30, 2017 and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

To the Board of Trustees
Brooklyn Scholars Charter School

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Brooklyn Scholars Charter School's financial statements. The supplemental schedule of functional expenses, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the financial statements.

The supplemental schedule of functional expenses has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 17, 2017 on our consideration of the Brooklyn Scholars Charter School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 the 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 Brooklyn Scholars Charter School's internal control over financial reporting and compliance.



October 17, 2017

BROOKLYN SCHOLARS CHARTER SCHOOL

STATEMENT OF FINANCIAL POSITION JUNE 30, 2017

ASSETS

CURRENT ASSETS:

Cash	\$	106,543
Due from governmental revenue sources		<u>538,433</u>

TOTAL	\$	<u><u>644,976</u></u>
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LIABILITIES AND NET ASSETS

LIABILITIES:

Deferred revenue	\$	1,906
Contracted service fee payable		<u>612,007</u>

Total liabilities		613,913
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NET ASSETS:

Unrestricted and undesignated		<u>31,063</u>
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TOTAL	\$	<u><u>644,976</u></u>
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See notes to financial statements.

BROOKLYN SCHOLARS CHARTER SCHOOL

STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS YEAR ENDED JUNE 30, 2017

REVENUES, GAINS AND OTHER SUPPORT:

State aid	\$ 9,849,465
Other state sources	813,627
Federal sources	679,224
Private sources	<u>31,547</u>

Total revenues, gains and other support 11,373,863

EXPENSES:

Contracted service fee	<u>11,368,897</u>
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CHANGE IN UNRESTRICTED NET ASSETS 4,966

NET ASSETS:

Beginning of year	<u>26,097</u>
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End of year	<u><u>\$ 31,063</u></u>
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See notes to financial statements.

BROOKLYN SCHOLARS CHARTER SCHOOL

STATEMENT OF CASH FLOWS YEAR ENDED JUNE 30, 2017

CASH FLOWS PROVIDED BY (USED IN) OPERATING ACTIVITIES	
State aid	\$ 9,699,980
Other state sources	765,430
Federal sources	674,378
Private sources	32,320
Payments for services rendered	<u>(11,169,921)</u>
Net cash provided by operating activities	<u>2,187</u>
NET INCREASE IN CASH	2,187
CASH — Beginning of year	<u>104,356</u>
CASH — End of year	<u>\$ 106,543</u>
RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Change in net assets	\$ 4,966
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:	
Change in due from governmental revenue sources	(171,712)
Change in accounts payable	(3,000)
Change in deferred revenue	(30,043)
Change in contracted service fee payable	<u>201,976</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 2,187</u>

See notes to financial statements.

BROOKLYN SCHOLARS CHARTER SCHOOL

NOTES TO THE FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED JUNE 30, 2017

1. NATURE OF OPERATIONS

Brooklyn Scholars Charter School (the "School") is a public charter school as defined by Article 56 of the New York State Education Law which provides education based on rigorous teaching methods, parental involvement, student responsibility, and basic moral values. The School operates under a charter approved by the New York City Department of Education, which is responsible for oversight of the School's operations. The charter expires June 30, 2021 and is subject to renewal. Management believes the charter will be renewed in the ordinary course of business. The School provides education, at no cost to the parent, to students in kindergarten through the eighth grade. Enrollment is open to all appropriately aged children without regard to gender, ethnic background, disability, and/or religious affiliation. The School is exempt from federal income tax under Section 501(a) of the Internal Revenue Code as an organization described in Section 501(c)(3).

The School's primary source of revenue is provided by the State of New York and consists of an amount per student multiplied by weighted average student counts. The state revenue is recognized ratably over the school year and was funded through payments from July 2016 through May 2017 for the year ended June 30, 2017.

The Board of Trustees of the School has entered into a management agreement (the "agreement") with National Heritage Academies, Inc. (NHA) which requires NHA to provide administration, strategic planning and all labor, materials, equipment, and supervision necessary for the provision of educational services to students. As part of the consideration received under the agreement, NHA also provides the facility in which the School operates. The agreement will continue until termination or expiration of the charter, unless at least 90 days written notice of intent to terminate or renegotiate is given by either the School or NHA.

Under the terms of the agreement, NHA receives as remuneration for its services an amount equal to the total revenue received by the School from all revenue sources and NHA pays the Board of Directors an amount equal to the lesser of two percent of state per pupil aid or \$35,000. These funds are property of the School and may be used by the School at the discretion of the board.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting — The financial statements have been prepared in accordance with Section 2851 of the Education Law of the State of New York which requires such statements to be prepared on the accrual basis of accounting in accordance with generally accepted accounting principles accepted in the United States of America for not-for-profit organizations.

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 disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash — Cash as of June 30, 2017 represents bank deposits which are covered by federal depository insurance.

Deferred Revenue — Deferred revenue as of June 30, 2017 consists of funds received for services which have not yet been performed.

Contracted Service Fee Payable — Contracted service fee payable represents a timing difference between funds received from governmental sources and amounts payable to NHA in accordance with the services agreement.

The Financial Statements — The financial statements are presented as follows:

Net assets and changes therein are classified and reported as follows:

- *Unrestricted Net Assets* — Net assets which are not subject to donor imposed or governmental stipulations.

Revenues and contributions are reported as follows:

- Revenues, gains and other support are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed or governmental restrictions. Expenses are reported as decreases in unrestricted net assets. Other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or governmental restriction. Expiration of temporary restrictions on net assets (i.e., the donor-stipulated purposes has been fulfilled and/or the stipulated time has elapsed) are reported as reclassifications between the applicable classes of net assets.
- Revenue is recorded when earned, regardless of the timing of related cash flows. Grants are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Income Taxes — The School operates as a nonprofit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. The School has received notification from the Internal Revenue Service (IRS) that they are considered exempt from income tax under Section 501(c)(3) of the internal revenue code. Accordingly, no provision for income taxes has been made.

Recent Accounting Pronouncements — The Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities* in August 2016. ASU 2016-14 requires significant changes to the financial reporting model of organizations who follow FASB not-for-profit rules, including changing from three classes of net assets to two classes, net

assets with donor restrictions and net assets without donor restrictions. The ASU will also require changes in the way certain information is aggregated and reported by the School, including required disclosures about the liquidity and availability of resources. The new standard is effective for the School's year ending June 30, 2019 and thereafter and must be applied on a retrospective basis. The School is currently evaluating the impact this standard will have on the financial statements.

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, Revenue from Contracts with Customers (Topic 606), which will supersede the current revenue recognition requirements in Topic 605, Revenue Recognition. The ASU is based on the principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The ASU also requires additional disclosure about the nature, amount, timing, and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. The new guidance will be effective for the School's year ending June 30, 2020. The ASU permits application of the new revenue recognition guidance to be applied using one of two retrospective application methods. The School has not yet determined which application method it will use. The School is in the process of evaluating potential effects of the new standard on the financial statements.

In February 2016, the Financial Accounting Standards Board (FASB) issued ASU No. 2016-02, Leases, which will supersede the current lease requirements in ASC 840. The ASU requires lessees to recognize a right-of-use asset and related lease liability for all leases, with a limited exception for short-term leases. Leases will be classified as either finance or operating, with the classification affecting the pattern of expense recognition in the statement of operations. Currently, leases are classified as either capital or operating, with only capital leases recognized on the balance sheet. The reporting of lease-related expenses in the statements of operations and cash flows will be generally consistent with the current guidance. The new lease guidance will be effective for the School's year ending June 30, 2020 and will be applied using a modified retrospective transition method to the beginning of the earliest period presented. The effect of applying the new lease guidance on the financial statements has not yet been determined, but is expected to have minimal impact when adopted.

3. RISK MANAGEMENT

The School is exposed to various risks of loss related to general liability. Commercial insurance policies to cover certain risks of loss have been obtained. There have been no significant reductions in insurance coverage during fiscal year 2017 and claims did not exceed coverage less retained risk deductible amounts in the past fiscal year.

4. CONTINGENCIES

The School has received proceeds from several federal and state grants. Periodic audits of these grants are required and certain costs may be questioned as not being appropriate expenditures under the grant agreements. Such audits could result in the refund of grant monies to the grantor agencies. Management believes that any required refunds will be immaterial. No provision has been made in the accompanying financial statements for the refund of grant monies.

5. OPERATING LEASE

The School has entered into a sublease agreement with NHA for a facility to house the School. The lease term is from July 1, 2016 through June 30, 2017. Annual rental payments required by the lease were \$2,130,000 payable in twelve monthly payments of \$177,500. This lease is automatically renewed on a year-to-year basis unless a notice of non-renewal is provided by either the School or NHA.

The School subsequently renewed the sublease with NHA for the period of July 1, 2017 through June 30, 2018 at the same rental rate.

6. FUNCTIONAL EXPENSES

The School provides a comprehensive education programs to enrolled students. Expenses incurred for these programs and other expenses are as follows:

Program services:		
Regular education	\$	7,616,544
Special education		594,012
Supporting services — management and general		<u>3,158,341</u>
 Total expenses	\$	<u>11,368,897</u>

7. SUBSEQUENT EVENTS

Events or transactions for the year ended June 30, 2017 have been evaluated through October 17, 2017, the date the financial statements were available to be issued. The financial statements and the notes thereto do not reflect events or transactions after this date.

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ADDITIONAL INFORMATION

BROOKLYN SCHOLARS CHARTER SCHOOL

**SCHEDULE OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2017**

	No. of Positions	2017																				
		Program Services					Supporting Services															
		Regular Education	Special Education	Other Education	Total	Fund-raising	Management and General	Total	Total													
Personnel Services Costs																						
Administrative Staff Personnel	-	\$ 631,195	-	\$ -	-	\$ 631,195	-	\$ -	-	\$ -	-	\$ -	-	\$ 631,195	-	\$ -	-	\$ -	-	\$ -	-	\$ 631,195
Instructional Personnel	-	2,310,274	366,925	-	2,677,199	-	-	-	-	-	-	-	-	2,677,199	-	-	-	-	-	-	-	2,677,199
Non-Instructional Personnel	-	212,286	-	-	212,286	-	-	-	-	-	-	-	-	212,286	-	-	-	-	-	-	-	212,286
Total Salaries and Staff	-	3,153,755	366,925	-	3,520,680	-	-	-	-	-	-	-	-	3,520,680	-	-	-	-	-	-	-	3,520,680
Fringe Benefits & Payroll Taxes		687,775	85,368	-	773,143	-	-	-	-	-	-	-	-	773,143	-	-	-	-	-	-	-	773,143
Retirement		56,031	5,021	-	61,052	-	-	-	-	-	-	-	-	61,052	-	-	-	-	-	-	-	61,052
Management Company Fees		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Legal Service		18,075	798	-	18,873	-	-	-	-	-	-	-	-	18,873	-	-	-	-	-	-	-	18,873
Accounting / Audit Services		6,576	-	-	6,576	-	-	-	-	-	-	-	-	6,576	-	-	-	-	-	-	-	6,576
Other Purchased / Professional / Consulting Services		14,077	130,976	-	145,053	-	-	-	-	-	-	-	-	145,053	-	-	-	-	-	-	-	145,053
Building and Land Rent / Lease		2,166,466	-	-	2,166,466	-	-	-	-	-	-	-	-	2,166,466	-	-	-	-	-	-	-	2,166,466
Repairs & Maintenance		367,396	-	-	367,396	-	-	-	-	-	-	-	-	367,396	-	-	-	-	-	-	-	367,396
Insurance		33,567	-	-	33,567	-	-	-	-	-	-	-	-	33,567	-	-	-	-	-	-	-	33,567
Utilities		208,615	-	-	208,615	-	-	-	-	-	-	-	-	208,615	-	-	-	-	-	-	-	208,615
Supplies / Materials		138,130	-	-	138,130	-	-	-	-	-	-	-	-	138,130	-	-	-	-	-	-	-	138,130
Equipment / Furnishings		148,032	-	-	148,032	-	-	-	-	-	-	-	-	148,032	-	-	-	-	-	-	-	148,032
Staff Development		93,636	3,057	-	96,693	-	-	-	-	-	-	-	-	96,693	-	-	-	-	-	-	-	96,693
Marketing / Recruitment		7,212	-	-	7,212	-	-	-	-	-	-	-	-	7,212	-	-	-	-	-	-	-	7,212
Technology		69,691	-	-	69,691	-	-	-	-	-	-	-	-	69,691	-	-	-	-	-	-	-	69,691
Food Service		349,409	-	-	349,409	-	-	-	-	-	-	-	-	349,409	-	-	-	-	-	-	-	349,409
Student Services		35,011	-	-	35,011	-	-	-	-	-	-	-	-	35,011	-	-	-	-	-	-	-	35,011
Office Expense		37,390	-	-	37,390	-	-	-	-	-	-	-	-	37,390	-	-	-	-	-	-	-	37,390
Depreciation		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other		25,700	1,867	-	27,567	-	-	-	-	-	-	-	-	27,567	-	-	-	-	-	-	-	27,567
Total Expenses		\$ 7,616,544	594,012	\$ -	\$ 8,210,556	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 8,210,556	\$ -	\$ 3,158,341	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 11,368,897

Report on Internal Control Over Financial Reporting and on Compliance
and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards*

Independent Auditor's Report

To Management and the Board of Trustees
Brooklyn Scholars Charter School

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Brooklyn Scholars Charter School (the "School"), which comprise the statement of financial position as of June 30, 2017 and the related statements of activities and change in net assets cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 17, 2017.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

To Management and the Board of Trustees
Brooklyn Scholars Charter School

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 School'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 School's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Plante Morax, PC". The signature is written in a cursive style with a large initial 'P' and 'M'.

October 17, 2017