

**BROOKLYN URBAN GARDEN
CHARTER SCHOOL**

**FINANCIAL STATEMENTS
AND AUDITOR'S REPORTS**

JUNE 30, 2017 AND 2016

BROOKLYN URBAN GARDEN CHARTER SCHOOL

TABLE OF CONTENTS

Independent Auditor's Report on Financial Statements and Supplementary Information

Exhibit

A - Balance Sheet

B - Statement of Activities

C - Statement of Cash Flows

Notes to Financial Statements

Schedule

1 - Schedule of Functional Expenses

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 on Financial Statements and Supplementary Information

**Board of Trustees
Brooklyn Urban Garden Charter School**

Report on the Financial Statements

We have audited the accompanying financial statements of Brooklyn Urban Garden Charter School (BUGS), which comprise the balance sheet as of June 30, 2017 and 2016, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of BUGS as of June 30, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of functional expenses 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 as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 19, 2017 on our consideration of BUGS'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 Brooklyn Urban Garden Charter 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 Brooklyn Urban Garden Charter School's internal control over financial reporting and compliance.

Loeb & Troper LLP

September 19, 2017

BROOKLYN URBAN GARDEN CHARTER SCHOOL

BALANCE SHEET

JUNE 30, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
ASSETS		
Current assets		
Cash	\$ 1,695,700	\$ 1,510,289
Grants and contracts receivable	124,353	63,894
Prepaid expenses	53,646	61,587
Security deposits	<u>97,083</u>	<u>97,083</u>
Total current assets	1,970,782	1,732,853
Cash - reserve (Note 2)	75,124	75,086
Fixed assets - net (Note 3)	<u>27,216</u>	<u>105,651</u>
Total assets	<u>\$ 2,073,122</u>	<u>\$ 1,913,590</u>
LIABILITIES AND NET ASSETS		
Accounts payable and accrued expenses	\$ 82,652	\$ 74,715
Accrued salaries and related liabilities	<u>468,134</u>	<u>419,991</u>
Total liabilities	<u>550,786</u>	<u>494,706</u>
Net assets (Exhibit B)		
Unrestricted	1,484,013	1,389,012
Temporarily restricted (Note 5)	<u>38,323</u>	<u>29,872</u>
Total net assets	<u>1,522,336</u>	<u>1,418,884</u>
Total liabilities and net assets	<u>\$ 2,073,122</u>	<u>\$ 1,913,590</u>

See independent auditor's report.

The accompanying notes are an integral part of these statements.

BROOKLYN URBAN GARDEN CHARTER SCHOOL

EXHIBIT B

STATEMENT OF ACTIVITIES

YEARS ENDED JUNE 30, 2017 AND 2016

	2017			2016		
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Operating revenues and other support						
State and local per-pupil operating revenues	\$ 3,788,707		\$ 3,788,707	\$ 3,874,805		\$ 3,874,805
Students with disabilities	902,582		902,582	954,920		954,920
NYCDOE rental assistance revenue	510,723		510,723	484,385		484,385
Government grants and contracts	246,822		246,822	210,202		210,202
Auxiliary program revenues	60,907		60,907	65,093		65,093
Contributions	36,698	\$ 49,400	86,098	2,037	\$ 65,093	67,130
Interest income	37		37	40		40
Net assets released from restrictions (Note 5)	40,949	(40,949)		63,308	(63,308)	
Total operating revenues and other support	<u>5,587,425</u>	<u>8,451</u>	<u>5,595,876</u>	<u>5,654,790</u>	<u>1,785</u>	<u>5,656,575</u>
Expenses (Schedule 1)						
Program services						
Education	3,381,883		3,381,883	3,347,249		3,347,249
Special education	1,072,658		1,072,658	1,027,294		1,027,294
Total program services	<u>4,454,541</u>		<u>4,454,541</u>	<u>4,374,543</u>		<u>4,374,543</u>

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BROOKLYN URBAN GARDEN CHARTER SCHOOL

STATEMENT OF ACTIVITIES

YEARS ENDED JUNE 30, 2017 AND 2016

	2017			2016		
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Expenses (Schedule 1) (continued)						
Supporting services						
Management and general	\$ 987,655		\$ 987,655	\$ 914,729		\$ 914,729
Fund raising	<u>50,228</u>		<u>50,228</u>	<u>30,757</u>		<u>30,757</u>
Total supporting services	<u>1,037,883</u>		<u>1,037,883</u>	<u>945,486</u>		<u>945,486</u>
Total expenses	<u>5,492,424</u>		<u>5,492,424</u>	<u>5,320,029</u>		<u>5,320,029</u>
Change in net assets (Exhibit C)	95,001	\$ 8,451	103,452	334,761	\$ 1,785	336,546
Net assets - beginning of year	<u>1,389,012</u>	<u>29,872</u>	<u>1,418,884</u>	<u>1,054,251</u>	<u>28,087</u>	<u>1,082,338</u>
Net assets - end of year (Exhibit A)	<u><u>\$ 1,484,013</u></u>	<u><u>\$ 38,323</u></u>	<u><u>\$ 1,522,336</u></u>	<u><u>\$ 1,389,012</u></u>	<u><u>\$ 29,872</u></u>	<u><u>\$ 1,418,884</u></u>

See independent auditor's report.

The accompanying notes are an integral part of these statements.

BROOKLYN URBAN GARDEN CHARTER SCHOOL

STATEMENT OF CASH FLOWS

YEARS ENDED JUNE 30, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities		
Change in net assets (Exhibit B)	\$ 103,452	336,546
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	86,568	220,118
Decrease (increase) in assets		
Grants and contracts receivable	(60,459)	(58,334)
Security deposits		(17,916)
Prepaid expenses	7,941	(20,937)
Increase (decrease) in liabilities		
Accounts payable and accrued expenses	7,937	11,480
Accrued salaries and related liabilities	48,143	181,912
Grant advances		(61,083)
Deferred rent		(21,669)
	<u>193,582</u>	<u>570,117</u>
Net cash provided by operating activities		
Cash flows from investing activities		
Fixed asset acquisitions	(8,133)	(54,294)
Change in cash - reserve	(38)	(25,040)
	<u>(8,171)</u>	<u>(79,334)</u>
Net cash used by investing activities		
Net change in cash	185,411	490,783
Cash - beginning of year	<u>1,510,289</u>	<u>1,019,506</u>
Cash - end of year	<u>\$ 1,695,700</u>	<u>1,510,289</u>

See independent auditor's report.

The accompanying notes are an integral part of these statements.

BROOKLYN URBAN GARDEN CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

NOTE 1 - NATURE OF ORGANIZATION

Brooklyn Urban Garden Charter School (BUGS) is an educational corporation that operates as a charter school in Brooklyn, New York. On September 13, 2011, the Board of Regents and the Board of Trustees of the University of the State of New York, for and on behalf of the State Education Department, granted BUGS a charter valid for a term of 5 years after the date of opening and renewable upon expiration on June 30, 2018. The School was granted a charter for grades 6-8.

BUGS was organized to increase learning opportunities for students through innovative educational programs and to enable parents to be more involved in their children's education. During school year 2016-2017, BUGS operated classes for 85 students in grade 8, 104 students in grade 7, and 96 students in grade 6. During school year 2015-2016, BUGS operated classes for 118 students in grade 8, 88 students in grade 7, and 89 students in grade 6.

BUGS is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. BUGS is supported primarily by state and local per-pupil operating revenues.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting - The financial statements are prepared on the accrual basis of accounting.

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.

Cash - reserve - As part of BUGS's charter agreement, BUGS agreed to establish a long-term reserve account to pay for legal and audit expenses that would be associated with a dissolution, should it occur.

Fixed assets - Fixed assets are recorded at cost. Items with a cost of \$1,000 and an estimated useful life of more than one year are capitalized. Depreciation is provided on the straight-line basis over the estimated useful lives of assets. Leasehold improvements are amortized over the term of the lease.

Unrestricted net assets - Unrestricted net assets include funds having no restrictions as to use or purpose imposed by donors.

Temporarily restricted net assets - Temporarily restricted net assets are those whose use by BUGS has been limited by donors to a specific time period or purpose.

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BROOKLYN URBAN GARDEN CHARTER SCHOOL**NOTES TO FINANCIAL STATEMENTS****JUNE 30, 2017 AND 2016****NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

State and local per-pupil revenues - Revenues from the state and local governments resulting from BUGS's charter status and based on the number of students enrolled are recorded when services are performed in accordance with the charter agreement.

Grants and contracts revenue and receivables - Revenues and receivables from government grants and contracts are based mostly on the number of students enrolled and are recognized when related expenditures are incurred by BUGS. Some grants are provided for specific educational endeavors, which are not based on student enrollment and are recognized when related expenditures are incurred by BUGS.

Contributed services - Donated services are recognized as revenue if the services create or enhance nonfinancial assets or require specialized skills, are provided by individuals possessing those skills, and typically need to be purchased if not provided by donation. These donated services have been valued at the standard market rates that would have been incurred by BUGS to obtain them and are reported as both revenue and expense in the accompanying financial statements because they meet the criteria as prescribed by accounting principles generally accepted in the United States of America.

Grant advances - Advances represent funds received from government agencies for the following year's programs.

Operating leases - Operating lease payments are charged to rental expense. Operating lease expense has been recorded on the straight-line basis over the life of the lease. Deferred rent, when material, is recorded for the difference between the fixed payment and the rent expense.

Allowance for doubtful accounts - Bad debt expense is charged if a receivable is determined to be uncollectible based on periodic review by management. Factors used to determine whether an allowance should be recorded include the age of the receivable and a review of payments subsequent to year end. Management has determined that no allowance is necessary as of June 30, 2017 and 2016.

Auxiliary program revenues - Auxiliary program revenues are revenues from food services, which are recognized on the accrual basis. Students are billed in advance of services rendered, and revenues are recognized as earned.

Contributions - Unconditional contributions, including promises to give cash and other assets, are reported at fair value at the date the contribution is received. The gifts are reported as temporarily 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 time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

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BROOKLYN URBAN GARDEN CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Functional allocation of expenses - The costs of providing the School's programs and other activities have been summarized on a functional basis. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Reclassification - State and local per-pupil operating revenues for 2016 have been reclassified to conform to current presentation.

Uncertainty in income taxes - BUGS has determined that there are no material uncertain tax positions that require recognition or disclosure in the financial statements. Periods ending June 30, 2014 and subsequent remain subject to examination by applicable taxing authorities.

Subsequent events - Subsequent events have been evaluated through September 19, 2017, which is the date the financial statements were available to be issued.

NOTE 3 - FIXED ASSETS

	<u>2017</u>	<u>2016</u>	<u>Useful Lives</u>
Furniture and fixtures	\$ 68,567	\$ 68,567	3-5 years
Equipment	229,695	221,562	3-5 years
Leasehold improvements	307,255	307,255	2 years
Construction in progress	<u> </u>	<u> </u>	
	605,517	597,384	
Accumulated depreciation and amortization	<u>(578,301)</u>	<u>(491,733)</u>	
	<u>\$ 27,216</u>	<u>\$ 105,651</u>	

NOTE 4 - OCCUPANCY

During the period June 4, 2013 - August 30, 2014, BUGS subleased its school's facility under a 5-year sublease agreement with the Bishop Ford Central Catholic High School. Bishop Ford Central Catholic High School ceased to operate as a school in June 2014. As a result, the rights relating to the tenant (Bishop Ford) were transferred to the landlord, the Brooklyn Diocese. Effective September 2014, the Brooklyn Diocese exercised its right not to continue the lease that was in effect with BUGS. For the period September 1, 2014 through June 30, 2015, BUGS and the Brooklyn Diocese negotiated a lease agreement. This agreement included a rent credit of approximately \$43,000 for renovations, which was being amortized over the life of the lease.

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BROOKLYN URBAN GARDEN CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

NOTE 4 - OCCUPANCY (continued)

For the period July 1, 2015 - June 30, 2016 BUGS and the Brooklyn Diocese negotiated another lease agreement with Rocklyn Ecclesiastical Corporation as landlord. Another lease was negotiated between BUGS and Rocklyn Asset Corporation for the period July 1, 2016 - June 30, 2017. BUGS is currently negotiating a 5-year lease with Rocklyn Asset Corporation for July 1, 2017 - June 30, 2022.

Rent expense for the years ended June 30, 2017 and 2016 was \$643,750 and \$603,331, respectively.

BUGS is currently renting space from the Brooklyn Diocese on a month-to-month basis and is in the process of negotiating a multi-year lease.

NOTE 5 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes:

	<u>2017</u>	<u>2016</u>
Food Program		\$ 29,872
Gardening	\$ 5,843	
Prospect Hill	15,000	
Seventh District	530	
Lowe's Charitable Grant	5,950	
Hyde & Watson Foundation	<u>11,000</u>	
	\$ <u>38,323</u>	\$ <u>29,872</u>

During 2017 and 2016, net assets were released from donor restrictions by incurring expenses satisfying the following restricted purposes:

	<u>2017</u>	<u>2016</u>
Food Program	\$ 29,872	\$ 60,053
Gardening	3,607	3,255
Seventh District	<u>7,470</u>	
	\$ <u>40,949</u>	\$ <u>63,308</u>

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BROOKLYN URBAN GARDEN CHARTER SCHOOL**NOTES TO FINANCIAL STATEMENTS****JUNE 30, 2017 AND 2016****NOTE 6 - CONTINGENCIES AND CONCENTRATIONS**

Certain grants and contracts may be subject to audit by the funding sources. Such audits might result in disallowances of costs submitted for reimbursement. Management is of the opinion that such cost 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 significant portion of BUGS's operating revenue is paid by New York City Department of Education.

Financial instruments which potentially subject BUGS to a concentration of credit risk are cash accounts with financial institutions in excess of FDIC insurance limits.

NOTE 7 - PENSION

All employees age 21 or older are eligible to participate in the ADP TotalSource Retirement Savings Plan. Pension expense in 2017 and 2016 was \$44,050 and \$44,648, respectively.

SCHEDULE OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2017
 (With Summarized Financial Information
 for the Year Ended June 30, 2016)

	No. of Positions	Program Services			Supporting Services			Total	
		Education	Special Education	Total	Management and General	Fund Raising	Total	2017	2016
Personnel service costs									
Administrative staff personnel	8	\$ 207,588	\$ 65,557	\$ 273,145	\$ 466,319	\$ 17,850	\$ 484,169	\$ 757,314	\$ 704,907
Instructional personnel	39	1,679,024	530,240	2,209,264				2,209,264	1,992,113
Non-instructional personnel	5	171,210	54,069	225,279	60,255		60,255	285,534	191,517
Salaries		2,057,822	649,866	2,707,688	526,574	17,850	544,424	3,252,112	2,888,537
Payroll taxes and employee benefits		419,152	132,369	551,521	107,257	3,636	110,893	662,414	592,610
Occupancy (Note 4)		427,990	135,160	563,150	109,518	3,713	113,231	676,381	639,855
Supplies and equipment		9,367	2,958	12,325	1,629	55	1,684	14,009	27,412
Repairs and maintenance		44,442	14,035	58,477	11,372	385	11,757	70,234	88,146
Professional fees (Note 6)		239,495	80,283	319,778	173,071	15,726	188,797	508,575	500,408
Classroom supplies and textbooks		26,553	8,385	34,938				34,938	91,206
Insurance		21,351	6,743	28,094	5,464	185	5,649	33,743	42,684
Student and staff recruitment		37,053	11,702	48,755				48,755	48,916
Telephone		19,174	6,055	25,229	4,906	166	5,072	30,301	108,325
Student field trips		332	105	437				437	10,812
Food services		2,749	868	3,617	703	24	727	4,344	9,071
Board and staff development		21,626	6,830	28,456	21,266	5,432	26,698	55,154	39,335
Depreciation and amortization		54,777	17,299	72,076	14,017	475	14,492	86,568	220,118
Miscellaneous expenses					11,878	2,581	14,459	14,459	12,594
Total expenses (Exhibit B)		\$ 3,381,883	\$ 1,072,658	\$ 4,454,541	\$ 987,655	\$ 50,228	\$ 1,037,883	\$ 5,492,424	\$ 5,320,029

See independent auditor's report.



**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

**Board of Trustees
Brooklyn Urban Garden 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 Urban Garden Charter School, which comprise the balance sheet as of June 30, 2017 and 2016, and the related statements of activities, and cash flows for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated September 19, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Brooklyn Urban Garden 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 Brooklyn Urban Garden Charter School's internal control. Accordingly, we do not express an opinion on the effectiveness of Brooklyn Urban Garden Charter 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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Brooklyn Urban Garden 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*.

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.

Loeb & Troper LLP

September 19, 2017