

**FORTE PREPARATORY ACADEMY  
CHARTER SCHOOL**

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

# FORTE PREPARATORY ACADEMY CHARTER SCHOOL

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## **Independent Auditor's Report**

To the Board of Trustees of  
Forte Preparatory Academy Charter School

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Forte Preparatory 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 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.

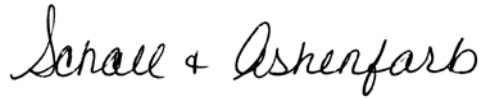
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Forte Preparatory 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 15, 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.



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Schall & Ashenfarb  
Certified Public Accountants, LLC

October 15, 2018

**FORTE PREPARATORY ACADEMY CHARTER SCHOOL  
STATEMENT OF FINANCIAL POSITION  
AS OF JUNE 30, 2018**

**Assets**

|  |                             |
|--|-----------------------------|
| Cash and cash equivalents                  | \$101,078                   |
| Restricted cash (Note 3)                   | 25,000                      |
| Grants receivable - New York City (Note 4) | 0                           |
| Government grants receivable               | 113,827                     |
| Prepaid expenses and other assets          | 166,856                     |
| Fixed assets (Note 5)                      | 116,567                     |
| Security deposit                           | <u>264,667</u>              |
| <br>Total assets                           | <br><u><u>\$787,995</u></u> |

**Liabilities and Net Assets**

|                                       |                             |
|---------------------------------------|-----------------------------|
| Liabilities:                          |                             |
| Accounts payable and accrued expenses | <u>125,904</u>              |
| Net assets:                           |                             |
| Unrestricted                          | <u>662,091</u>              |
| <br>Total liabilities and net assets  | <br><u><u>\$787,995</u></u> |

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

**FORTE PREPARATORY 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 | \$1,265,912             |
| Revenue - students with disabilities  | 252,242                 |
| Total public school district          | <u>1,518,154</u>        |
| Government grants - other             | 867,983                 |
| Contributions                         | <u>369,872</u>          |
| Total revenue and public support      | <u>2,756,009</u>        |
| Expenses:                             |                         |
| Program services:                     |                         |
| Regular education                     | 1,237,109               |
| Special education                     | 312,686                 |
| Total program services                | <u>1,549,795</u>        |
| Supporting services:                  |                         |
| Management and general                | 513,617                 |
| Fundraising                           | <u>30,506</u>           |
| Total expenses                        | <u>2,093,918</u>        |
| Change in net assets                  | 662,091                 |
| Net assets - beginning                | <u>0</u>                |
| Net assets - ending                   | <u><u>\$662,091</u></u> |

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

**FORTE PREPARATORY ACADEMY CHARTER SCHOOL  
SCHEDULE OF FUNCTIONAL EXPENSES  
FROM INCEPTION THROUGH JUNE 30, 2018**

|                                   | Program Services   |                   |                        | Supporting Services    |                 | Total Expenses     |
|-----------------------------------|--------------------|-------------------|------------------------|------------------------|-----------------|--------------------|
|                                   | Regular Education  | Special Education | Total Program Services | Management and General | Fundraising     |                    |
| Salaries                          | \$664,396          | \$175,729         | \$840,125              | \$213,154              | \$25,409        | \$1,078,688        |
| Payroll taxes and benefits        | 133,267            | 35,248            | 168,515                | 42,755                 | 5,097           | 216,367            |
| <b>Total personnel costs</b>      | <b>797,663</b>     | <b>210,977</b>    | <b>1,008,640</b>       | <b>255,909</b>         | <b>30,506</b>   | <b>1,295,055</b>   |
| Curriculum and classroom expenses | 74,001             | 16,310            | 90,311                 |                        |                 | 90,311             |
| Professional fees                 | 95,889             | 25,985            | 121,874                | 183,207                |                 | 305,081            |
| Office expenses                   | 5,002              | 1,103             | 6,105                  | 46,327                 |                 | 52,432             |
| Equipment                         | 4,077              | 899               | 4,976                  | 11,408                 |                 | 16,384             |
| Facilities expense                | 172,556            | 38,033            | 210,589                | 6,513                  |                 | 217,102            |
| Recruitment                       | 29,228             | 6,442             | 35,670                 |                        |                 | 35,670             |
| Professional development          | 8,695              | 1,916             | 10,611                 |                        |                 | 10,611             |
| Insurance                         | 18,065             | 3,982             | 22,047                 | 3,890                  |                 | 25,937             |
| Other expenses                    | 7,076              | 1,560             | 8,636                  | 5,425                  |                 | 14,061             |
| Depreciation                      | 24,857             | 5,479             | 30,336                 | 938                    |                 | 31,274             |
| <b>Total expenses</b>             | <b>\$1,237,109</b> | <b>\$312,686</b>  | <b>\$1,549,795</b>     | <b>\$513,617</b>       | <b>\$30,506</b> | <b>\$2,093,918</b> |

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

**FORTE PREPARATORY ACADEMY CHARTER SCHOOL  
STATEMENT OF CASH FLOWS  
FROM INCEPTION THROUGH JUNE 30, 2018**

|   |                         |
|---|-------------------------|
| Cash flows from operating activities:   |                         |
| Change in net assets  | \$662,091               |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: |                         |
| Depreciation  | 31,274                  |
| Changes in assets and liabilities:  |                         |
| Restricted cash   | (25,000)                |
| Government grants receivable  | (113,827)               |
| Prepaid expenses and other assets   | (166,856)               |
| Security deposit  | (264,667)               |
| Accounts payable and accrued expenses   | 125,904                 |
| Total adjustments   | <u>(413,172)</u>        |
| Net cash flows provided by operating activities   | <u>248,919</u>          |
| <br>Cash flows from investing activities:   |                         |
| Purchases of furniture and equipment  | <u>(147,841)</u>        |
| Net cash used for investing activities  | <u>(147,841)</u>        |
| <br>Net increase in cash and cash equivalents   | 101,078                 |
| <br>Cash and cash equivalents - beginning   | <u>0</u>                |
| <br>Cash and cash equivalents - ending  | <u><u>\$101,078</u></u> |
| <br>Supplemental disclosures:   |                         |
| Interest and taxes paid   | <u><u>\$0</u></u>       |

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



**FORTE PREPARATORY ACADEMY CHARTER SCHOOL**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

**Note 1 - Organization**

Forte Preparatory Academy Charter School (the "School"), located in Queens, New York, is a not-for-profit education corporation chartered by the Board of Regents of the State of New York. Through rigorous academics, quality instruction, and a positive culture of individual and collective responsibility, the School equips all students in grades 5 through 8 to excel in college preparatory high schools and use their leadership and voice to change the world. The School completed the 2017-2018 fiscal year with an average enrollment of approximately 87 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 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 5 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 15, 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 - New York City Department of Education Contract**

Activity related to the contract with the NYCDOE during the year ended June 30, 2018 can be summarized as follows:

|                                  |                    |
|----------------------------------|--------------------|
| Per pupil funding:               |                    |
| Funding based on allowable FTE's | \$1,518,154        |
| Advances received                | <u>(1,518,154)</u> |
| Ending grant receivable          | <u>\$0</u>         |

**Note 5 - Fixed Assets**

Fixed assets consist of the following:

|                                   |                  |
|-----------------------------------|------------------|
| Furniture, fixtures and equipment | \$147,841        |
| Less: accumulated depreciation    | <u>(31,274)</u>  |
| Total                             | <u>\$116,567</u> |

**Note 6 - Significant Concentrations**

The School is dependent upon grants from the NYCDOE to carry out its operations. Approximately 55% 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 - Commitments**

The School occupies space in Queens, New York under a lease agreement that expired on June 30, 2018. On March 22, 2018, this lease was extended through June 30, 2020 and included additional space.

Future minimum payments due under the lease are \$769,500 for the year ending June 30, 2019 and \$1,154,250 for the year ending June 30, 2020. The School can terminate the lease on June 30, 2019 in exchange for an early termination fee of \$294,000 unless it finds a substitute tenant for the space.

**Note 8 - Retirement Plan**

The School has a retirement plan under Section 403(b) of the Internal Revenue Code. All employees are immediately eligible to participate and may elect to defer a portion of their salary and contribute to this plan up to statutory amounts. Full time employees receive an employer base contribution equal to 100% of the salary reduction contributions made by the employee for the calendar year, not to exceed 3% of the employee's salary.

There were no employee contributions to the plan during the period from inception through June 30, 2018 so the School did not provide any matching contributions. The following vesting periods apply:

| <u>Period</u>     | <u>Vesting Percentage</u> |
|-------------------|---------------------------|
| Less than 2 years | 0%                        |
| 3 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  
Forte Preparatory 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 Forte Preparatory 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 15, 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.

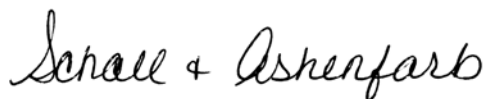
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during 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.



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Schall & Ashenfarb  
Certified Public Accountants, LLC

October 15, 2018

**FORTE PREPARATORY 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.