

GREAT OAKS CHARTER SCHOOL

**FINANCIAL STATEMENTS
AND AUDITOR'S REPORTS**

JUNE 30, 2017 AND 2016

GREAT OAKS CHARTER SCHOOL

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and on Compliance and Other Matters Based on
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**Independent Auditor's Report on Financial Statements
and Supplementary Information**

**Board of Trustees
Great Oaks Charter School**

Report on the Financial Statements

We have audited the accompanying financial statements of Great Oaks Charter School, which comprise the balance sheet as of June 30, 2017 and 2016, and the related statements of activities, functional expenses 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 Great Oaks Charter School 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 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 Great Oaks Charter School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Great Oaks 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 Great Oaks Charter School's internal control over financial reporting and compliance.

Loeb & Troper LLP

October 17, 2017

GREAT OAKS CHARTER SCHOOL

BALANCE SHEET

JUNE 30, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
ASSETS		
Current assets		
Cash	\$ 501,498	\$ 537,722
Grants and contracts receivable	129,313	355,087
Security deposits	181,244	178,694
Prepaid expenses	<u>50,623</u>	<u>48,063</u>
Total current assets	862,678	1,119,566
Cash - reserve (Note 2)	75,118	75,080
Fixed assets - net (Note 3)	<u>868,273</u>	<u>1,033,296</u>
Total assets	<u>\$ 1,806,069</u>	<u>\$ 2,227,942</u>
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable and accrued expenses	\$ 107,555	\$ 89,639
Accrued salaries and related liabilities	104,949	153,607
Loan payable (Note 7)	34,080	300,000
Management fee payable (Note 6)	<u>2,460</u>	<u> </u>
Total current liabilities	249,044	543,246
Loan payable (Note 7)	<u>425,988</u>	<u>564,877</u>
Total liabilities	675,032	1,108,123
Net assets (Exhibit B)		
Unrestricted	<u>1,131,037</u>	<u>1,119,819</u>
Total liabilities and net assets	<u>\$ 1,806,069</u>	<u>\$ 2,227,942</u>

See independent auditor's report.

The accompanying notes are an integral part of these statements.

GREAT OAKS CHARTER SCHOOL

STATEMENT OF ACTIVITIES

YEARS ENDED JUNE 30, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
Operating revenues and other support		
Resident student enrollment	\$ 3,008,291	\$ 2,896,680
Students with disabilities	542,358	523,908
NYCDOE rental assistance revenue	415,760	405,417
Government grants and contracts	504,813	934,810
In-kind contributions (Note 8)	619,472	
Miscellaneous income	26,625	1,298
	<u>5,117,319</u>	<u>4,762,113</u>
Expenses (Exhibit C)		
Program services		
Education	3,124,038	2,630,640
Special education	970,413	1,046,597
	<u>4,094,451</u>	<u>3,677,237</u>
Supporting services		
Management and general	1,011,650	891,857
	<u>5,106,101</u>	<u>4,569,094</u>
Change in unrestricted net assets (Exhibit D)	11,218	193,019
Net assets, unrestricted - beginning of year	<u>1,119,819</u>	<u>926,800</u>
Net assets, unrestricted - end of year (Exhibit A)	<u>\$ 1,131,037</u>	<u>\$ 1,119,819</u>

See independent auditor's report.

The accompanying notes are an integral part of these statements.

GREAT OAKS CHARTER SCHOOL

EXHIBIT C

STATEMENT OF FUNCTIONAL EXPENSES

YEARS ENDED JUNE 30, 2017 AND 2016

	2017					
	No. of Positions	Program Services			Supporting Services Management and General	Total
		Education	Special Education	Total		
Personnel service costs						
Administrative staff personnel	10	\$ 653,504	\$ 368,489	\$ 1,021,993	\$ 570,781	\$ 570,781
Instructional personnel	12	\$ 653,504	\$ 368,489	\$ 1,021,993	\$ 570,781	\$ 1,021,993
Total salaries	22	653,504	368,489	1,021,993	570,781	1,592,774
Payroll taxes and employee benefits		119,054	50,721	169,775	78,564	248,339
In-kind contributions		619,472		619,472		619,472
Professional development		37,793	11,504	49,297	5,394	54,691
Professional fees (Note 6)		495,038	148,943	643,981	111,558	755,539
Student and staff recruitment		13,624	3,863	17,487		17,487
Curriculum and classroom		134,648	38,181	172,829		172,829
Supplies and materials		41,589	49,335	90,924	4,883	95,807
Food service		9,136	2,591	11,727		11,727
Travel/conferences		49,167	13,942	63,109		63,109
Insurance		14,523	4,421	18,944	2,073	21,017
Information technology		46,074	13,638	59,712	3,930	63,642
Occupancy/facility costs (Note 4)		618,291	182,959	801,250	202,507	1,003,757
Non-capitalized equipment and furnishings		28,720	8,144	36,864		36,864
Repairs and maintenance		14,420	4,389	18,809	2,058	20,867
Interest		31,229	9,505	40,734	4,457	45,191
Depreciation and amortization		178,285	54,267	232,552	25,445	257,997
Other		19,471	5,521	24,992		24,992
Total expenses (Exhibit B)		\$ 3,124,038	\$ 970,413	\$ 4,094,451	\$ 1,011,650	\$ 5,106,101

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GREAT OAKS CHARTER SCHOOL

EXHIBIT C

STATEMENT OF FUNCTIONAL EXPENSES

YEARS ENDED JUNE 30, 2017 AND 2016

	No. of Positions	2016			Total
		Education	Program Services Special Education	Supporting Services Management and General	
Personnel service costs					
Administrative staff personnel	10	\$ 1,122,155	\$ 463,216	\$ 1,585,371	\$ 437,060
Instructional personnel	55	\$ 1,122,155	\$ 463,216	\$ 1,585,371	\$ 1,585,371
Total salaries	65	1,122,155	463,216	1,585,371	2,022,431
Payroll taxes and employee benefits		166,164	68,591	234,755	299,473
Professional development		23,614	9,748	33,362	42,559
Professional fees (Note 6)		215,523	88,966	304,489	415,253
Student and staff recruitment		17,894	5,737	23,631	25,317
Curriculum and classroom		85,728	24,968	110,696	110,696
Supplies and materials		37,794	24,598	62,392	72,342
Food service		8,801	2,563	11,364	11,364
Travel/conferences		50,475	14,700	65,175	65,175
Insurance		22,967	9,480	32,447	41,392
Information technology		39,816	15,248	55,064	66,766
Occupancy/facility costs (Note 4)		595,930	224,346	820,276	983,010
Non-capitalized equipment and furnishings		47,931	13,960	61,891	61,891
Repairs and maintenance		9,965	4,113	14,078	17,959
Interest		35,547	14,673	50,220	64,065
Depreciation and amortization		147,309	60,808	208,117	265,492
Other		3,027	882	3,909	3,909
Total expenses (Exhibit B)		\$ 2,630,640	\$ 1,046,597	\$ 3,677,237	\$ 4,569,094

See independent auditor's report.

The accompanying notes are an integral part of these statements.

GREAT OAKS 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)	\$ 11,218	\$ 193,019
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	257,997	265,492
Decrease (increase) in assets		
Grants and contracts receivable	225,774	(264,638)
Security deposits	(2,550)	(161,194)
Prepaid expenses	(2,560)	(24,150)
Increase (decrease) in liabilities		
Accounts payable and accrued expenses	17,916	52,356
Accrued salaries and related liabilities	(48,658)	31,831
Management fee payable	2,460	(2,823)
	<u>461,597</u>	<u>89,893</u>
Net cash provided by operating activities		
Cash flows from investing activities		
Fixed asset acquisitions	(92,974)	(1,020,731)
Cash - reserve	(38)	(47)
	<u>(93,012)</u>	<u>(1,020,778)</u>
Net cash used by investing activities		
Cash flows from financing activities		
Proceeds from loan		900,812
Principal payments on loan	(404,809)	(35,935)
	<u>(404,809)</u>	<u>864,877</u>
Net cash provided (used) by financing activities		
Net change in cash	(36,224)	(66,008)
Cash - beginning of year	<u>537,722</u>	<u>603,730</u>
Cash - end of year	<u>\$ 501,498</u>	<u>\$ 537,722</u>
Supplemental disclosure of cash flow information		
Cash paid during the year for interest	<u>\$ 45,191</u>	<u>64,065</u>

See independent auditor's report.

The accompanying notes are an integral part of these statements.

GREAT OAKS CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

NOTE 1 - NATURE OF ORGANIZATION

Great Oaks Charter School (GOCS) is an educational corporation that operates as a charter school in the borough of Manhattan, New York City. On November 5, 2012, 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 GOCS a charter valid for a term of 5 years and renewable upon expiration. The school was granted a charter from grades 6-10. GOCS was organized to create a rigorous, supportive middle and high school program that ensures its graduates have the requisite knowledge and habits of mind to earn a degree from a competitive four-year college or University. During fiscal years 2017 and 2016, GOCS operated classes for 207 and 206 students, respectively, in grades 6 through 8.

Great Oaks Charter School is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. GOCS 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 GOCS's charter agreement, GOCS agreed to establish a long-term account to pay for legal and audit expenses that would be associated with a dissolution should it occur.

Grants and contracts receivable - Revenues from government grants and contracts to which GOCS is entitled are recognized mostly on student enrollment. Some grants are provided for specific educational endeavors, which are not based on student enrollment, and are recorded when related expenditures are incurred by GOCS. Receivables are recorded when the revenue is earned.

Allowance for doubtful accounts - GOCS determines whether an allowance for uncollectibles should be provided for receivables. Such estimates are based on management's assessment of the aged basis of its receivables, current economic conditions and historical information. Receivables are written off against the allowance for doubtful accounts when all reasonable collection efforts have been exhausted. GOCS has determined that no allowance for uncollectible accounts for grant and contracts receivable is necessary as of June 30, 2017 and 2016.

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GREAT OAKS CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fixed assets - Fixed assets are recorded at cost. Items with a cost of \$2,500 and an estimated useful life of more than one year are capitalized. Depreciation is provided on the straight-line basis over the estimated following useful lives of assets. Leasehold improvements are capitalized at cost and amortized over the life of the lease or the useful life of the improvement, whichever is shorter.

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

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

Contributions - Unconditional contributions, including promises to give cash and other assets, are reported at fair value at the date the contribution is received. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. The gifts are reported as temporarily or permanently 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.

The New York City Department of Education provides free and reduced-price lunches directly to a majority of the students. Such costs are not included in the financial statements.

Government grants and contracts - Revenues from government grants and contracts to which GOCS is entitled are recognized mostly on student enrollment. Some grants are provided for specific educational endeavors, which are not based on student enrollment, and are recorded when related expenditures are incurred by GOCS.

In-kind contributions - In-kind contributions consist of services of tutors paid for by Great Oaks Foundation, Inc.

Rent expense - Rent is recorded on the straight-line basis over the term of the lease.

Functional allocation of expenses - The costs of providing services have been summarized on a functional basis. Expenses are allocated among the program and supporting services based on the nature of the expense.

Reclassification - Resident student enrollment revenues for 2016 have been reclassified to conform to current presentation.

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GREAT OAKS CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Uncertainty in income taxes - GOCS 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 October 17, 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	\$ 155,474	\$ 142,510	3-5 years
Equipment	286,131	230,902	3-5 years
Leasehold improvements	1,046,841	1,022,060	4-5 years
Computer software	<u>21,413</u>	<u>21,413</u>	3 years
	1,509,859	1,416,885	
Accumulated depreciation and amortization	<u>(641,586)</u>	<u>(383,589)</u>	
	<u>\$ 868,273</u>	<u>\$ 1,033,296</u>	

NOTE 4 - LEASE COMMITMENT

On June 24, 2015, GOCS entered into a lease with Kunskapsskolan USA, Inc. for a location at Delancey Street, New York. The lease commenced on July 1, 2015 and expires on February 21, 2022. Rent expense for the year ended June 30, 2017 and 2016 were \$537,174 per year. Future minimum rental payments are estimated as follows:

2018	\$ 552,454
2019	552,454
2020	552,454
2021	602,188
2022	<u>401,456</u>
	<u>\$ 2,661,006</u>

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GREAT OAKS CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

NOTE 5 - 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.

For fiscal year 2017 and 2016, 78% and 80%, respectively, of GOCS's operating revenue is paid by New York City Department of Education.

NOTE 6 - ACADEMIC AND SERVICES AGREEMENT

GOCS entered into an Academic and Business Service Agreement with Great Oaks Foundation, Inc. (GOF), a not-for-profit organization dedicated to help start and run charter schools. The agreement provides academic, management and other administrative support services to GOCS. Pursuant to the terms of the agreement, GOCS shall pay GOF a service fee equivalent to 7% of the noncompetitive public revenue of the school for the current year. Additionally, in 2017 the agreement was amended to include an additional service fee from GOCS for each tutor, staff, and leader assigned to GOCS. The agreement is renewable annually. These current terms end June 30, 2018. Service fees were \$541,096 in 2017 and \$288,087 in 2016.

NOTE 7 - LOAN PAYABLE

In connection with the lease agreement, GOCS obtained an uncollateralized \$1,100,000 promissory note from Kunskapsskolan USA, Inc. for the leasehold improvements associated with their school space. The loan has an imputed interest rate of 8% per annum. The imputed fair value of the loan at July 1, 2015 was \$900,812. Interest expense for the year ended June 30, 2017 and 2016 was \$45,191 and \$64,065, respectively. The loan matures on July 1, 2021. As of June 30, 2017 and 2016, the outstanding balance on the loan is \$460,068 and \$864,877, respectively.

Principal payments on the loan are due as follows:

2018	\$ 34,080
2019	128,601
2020	119,075
2021	110,254
2022	<u>68,058</u>
	<u>\$ 460,068</u>

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GREAT OAKS CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

NOTE 8 - IN-KIND SERVICES

In fiscal 2017, GOCS received the services of tutors paid for by GOF. These services include both tutors and tutor leaders. These services were valued at the amount of salaries and benefits paid by GOF to the tutors and leaders.



**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
Great Oaks 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 Great Oaks Charter School, which comprise the balance sheet as of June 30, 2017 and 2016, and the related statements of activities, functional expenses and cash flows for the years 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 Great Oaks 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 Great Oaks Charter School's internal control. Accordingly, we do not express an opinion on the effectiveness of Great Oaks 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 Great Oaks 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

October 17, 2017