

**SCHOOL IN THE SQUARE &  
PUBLIC CHARTER SCHOOL &**

**Audited Financial Statements In Accordance '  
With Government Auditing Standards '**

**June 30, 2017 '**

# SCHOOL IN THE SQUARE PUBLIC CHARTER SCHOOL

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## **Independent Auditors'**

To the Board of Directors of  
School in the Square Public Charter School

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

We have audited the accompanying financial statements of School in the Square Charter School (the "School"), which comprise the statement of financial position as of June 30, 2017, and the related statements of activities, functional expenses, and cash flows from inception through June 30, 2017, 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.

### **Auditors' 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 auditors' 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 School in the Square Public Charter School as of June 30, 2017, and the changes in its net assets and its cash flows from inception through June 30, 2017 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 19, 2017 on our consideration of the School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control over financial reporting and compliance.



Schall & Ashenfarb  
Certified Public Accountants, LLC

October 19, 2017 !

**SCHOOL IN THE SQUARE PUBLIC CHARTER SCHOOL #**  
**STATEMENT OF FINANCIAL POSITION #**  
**AT JUNE 30, 2017**

**Assets**

Cash and cash equivalents	\$125,638
Restricted cash (Note 3)	25,000
Grants receivable - New York City (Note 5)	971
Government grants receivable	85,573
Pledges receivable	49,015
Prepaid expenses	95,114
Fixed assets, net (Note 4)	575,961
Security deposit	<u>41,667</u>
Total assets	<u><u>\$998,939</u></u>

**Liabilities and Net Assets**

Liabilities:	
Accounts payable and accrued expenses	\$134,770
Deferred rent	<u>515,000</u>
Total liabilities	<u><u>649,770</u></u>
Net assets:	
Unrestricted	199,169
Temporarily restricted (Note 6)	<u>150,000</u>
Total net assets	<u><u>349,169</u></u>
Total liabilities and net assets	<u><u>\$998,939</u></u>

*The attached notes and auditors' report \$  
are an integral part of these financial statements. \$*

**SCHOOL IN THE SQUARE PUBLIC CHARTER SCHOOL #**  
**STATEMENT OF ACTIVITIES #**  
**FROM INCEPTION THROUGH JUNE 30, 2017 #**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Public support and revenue:			
Public school district: (Note 5)			
Revenue - resident student enrollment	\$1,451,991		\$1,451,991
Revenue - students with disabilities	253,188		253,188
Total public school district revenue	1,705,179	0	1,705,179
New York City rental assistance	289,494		289,494
Government grants - other	971,096		971,096
Contributions and other income	715,183	325,000	1,040,183
Net assets released from restriction (Note 6)	175,000	(175,000)	0
Total public support and revenue	<u>3,855,952</u>	<u>150,000</u>	<u>4,005,952</u>
Expenses:			
Program services:			
Regular education	2,228,785		2,228,785
Special education	629,201		629,201
Total program services	2,857,986	0	2,857,986
Supporting services:			
Management and general	780,950		780,950
Fundraising	17,847		17,847
Total expenses	<u>3,656,783</u>	<u>0</u>	<u>3,656,783</u>
Change in net assets	199,169	150,000	349,169
Net assets - beginning	<u>0</u>	<u>0</u>	<u>0</u>
Net assets - ending	<u>\$199,169</u>	<u>\$150,000</u>	<u>\$349,169</u>

*The attached notes and auditors' report \$  
are an integral part of these financial statements. \$*

**SCHOOL IN THE SQUARE PUBLIC CHARTER SCHOOL #**  
**STATEMENT OF FUNCTIONAL EXPENSES #**  
**FROM INCEPTION THROUGH JUNE 30, 2017 #**

	Program Services			Supporting Services		Total Expenses
	Regular Education	Special Education	Total Program Services	Management and General	Fundraising	
Personnel costs:						
Salaries	\$622,544	\$205,494	\$828,038	\$277,000	\$8,437	\$1,113,475
Payroll taxes and benefits	115,461	38,112	153,573	51,374	1,565	206,512
<b>Total personnel costs</b>	<b>738,005</b>	<b>243,606</b>	<b>981,611</b>	<b>328,374</b>	<b>10,002</b>	<b>1,319,987</b>
Professional fees	729,059	160,953	890,012	112,682		1,002,694
Curriculum and student services	121,150	22,233	143,383			143,383
Classroom supplies and materials	34,867	6,417	41,284			41,284
Occupancy	464,161	153,214	617,375	206,528	6,291	830,194
Office supplies	17,063	5,632	22,695	7,592	231	30,518
Equipment	16,006	5,283	21,289	7,122	217	28,628
IT and telecommunications	19,591	6,467	26,058	8,717	265	35,040
Recruitment			0	51,195		51,195
Travel			0	25,079		25,079
Insurance	22,736	7,505	30,241	10,116	308	40,665
Professional development	26,899	4,936	31,835			31,835
Depreciation	39,248	12,955	52,203	17,463	533	70,199
Other expenses			0	6,082		6,082
<b>Total other than personnel costs</b>	<b>1,490,780</b>	<b>385,595</b>	<b>1,876,375</b>	<b>452,576</b>	<b>7,845</b>	<b>2,336,796</b>
<b>Total expenses</b>	<b>\$2,228,785</b>	<b>\$629,201</b>	<b>\$2,857,986</b>	<b>\$780,950</b>	<b>\$17,847</b>	<b>\$3,656,783</b>

*The attached notes and auditors' report \$  
are an integral part of these financial statements. \$*

**SCHOOL IN THE SQUARE PUBLIC CHARTER SCHOOL #**  
**STATEMENT OF CASH FLOWS #**  
**FROM INCEPTION THROUGH JUNE 30, 2017 #**

Cash flows from operating activities:	
Change in net assets	\$349,169
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	70,199
Changes in assets and liabilities:	
Restricted cash	(25,000)
Grants receivable - New York City	(971)
Government grants receivable	(85,573)
Pledges receivable	(49,015)
Prepaid expenses	(95,114)
Security deposit	(41,667)
Accounts payable and accrued expenses	134,770
Deferred rent	515,000
Total adjustments	<u>422,629</u>
Net cash provided by operating activities	<u><u>771,798</u></u>
Cash flows from investing activities:	
Purchase of fixed assets	<u>(646,160)</u>
Net cash used for investing activities	<u><u>(646,160)</u></u>
Net increase in cash and cash equivalents	125,638
Cash and cash equivalents beginning	<u>0</u>
Cash and cash equivalents ending	<u><u>\$125,638</u></u>
Supplemental disclosures:	
Interest paid	<u>\$300</u>
Taxes paid	<u><u>\$0</u></u>

*The attached notes and auditors' report \$  
are an integral part of these financial statements. \$*

**SCHOOL IN THE SQUARE PUBLIC CHARTER SCHOOL &  
NOTES TO FINANCIAL STATEMENTS &  
JUNE 30, 2017 &**

**Note 1 - Organization and Nature of Activities**

School in the Square Public Charter School (the "School"), located in the Washington Heights neighborhood of Manhattan in New York City, is a not-for-profit educational corporation chartered by the Board of Regents of the State of New York. The mission of the School is to engage, educate and empower adolescents in Washington Heights to respond mindfully and creatively to life's opportunities and challenges. The School completed the 2016-2017 school year (first year of operations) with an average enrollment of approximately 100 students.

On November 17, 2015, the School was granted a provisional charter by the Board of Regents of the State of New York for a term of five years, expiring on June 30, 2020. Such a provisional charter may be extended upon application for a term of up to five years in accordance with the provisions of Article 56 of the Education law.

On March 17, 2017, the School received notification from the Internal Revenue Service that they are 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.

The financial statements reflect activity from inception through June 30, 2017.

**Note 2 - 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 to specific purposes 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 fiscal period of donation, are reported as unrestricted.
- *Permanently restricted* – accounts for activity restricted by donors that must remain intact in perpetuity. The School did not have any permanently restricted net assets at June 30, 2017.

b. ! Cash and Cash Equivalents

The School considers all liquid investments with an initial 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 year end, there were no significant uninsured balances.

d. ! Pledges Receivable

All receivables at June 30, 2017 are due within one year and have been recorded at net realizable value.

The School reviews receivables that are unlikely to be collected including an analysis of cash received subsequent to the balance sheet date. Based on this review, no allowance for doubtful accounts was deemed necessary as of June 30, 2017. Write-offs will be made directly to operations in the period the receivable is deemed to be uncollectable.

e. ! Capitalization Policy

Leasehold improvements, as well as equipment and furniture that exceed predetermined amounts and that have a useful life of greater than one year are recorded at cost or at fair value at the date of gift. Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets, as follows:

Furniture and equipment - *5-7 years* 1

Leasehold improvements - *life of lease* 1

f. ! Revenue - Public School District

The School receives grants from the New York City Department of Education ("NYCDOE") to carry out its operations. Program revenues are recognized based on rates established by the School's funding sources and the amount realizable on the accrual basis in the period during which services are provided.

g. ! Government Grants

Government grants are recognized as income when earned. The difference between grants earned and cash received is recorded as either grants receivable or government grant advances.

h. ! 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.

i. ! 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.

j. ! Use of Estimates

The preparation of financial statements, in conformity with accounting principles generally accepted in the United States of America, requires the School 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.

k. ! Contingencies

Government contracts are subject to audit by the grantor. The School 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.

l. ! Accounting for Uncertainty of Income Taxes

The School does not believe its financial statements include any material, uncertain tax positions. The initial filing was for the period from inception through June 30, 2016, so there are no prior tax periods subject to examination by applicable taxing authorities.

m. ! Subsequent Events

The School has evaluated for potential recognition and disclosure events subsequent to the date of the statement of financial position through October 19, 2017, the date the financial statements were available to be issued. All events that have occurred subsequent to the statement of financial position date, through our evaluation date that would require adjustment to or further disclosure in the financial statements have been made.

n. ! New Accounting Pronouncement

On August 18, 2016, 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, with early implementation permitted, 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, FASB issued ASU No. 2016-02, *Leases*. The ASU which becomes effective for the June 30, 2021 year, requires all leases to be reflected as assets and liabilities on the statement of financial position.

The School has not yet evaluated the impact these pronouncements will have on future statements.

**Note 3 - Restricted Cash**

An escrow account has been established to meet the requirement of NYCDOE. 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 - Fixed Assets**

At June 30, 2017, fixed assets are summarized as follows:

Furniture and equipment	\$231,707 !
Leasehold improvements	<u>414,453</u>
	646,160
Less: accumulated depreciation !	<u>(70,199)</u>
Fixed assets, net !	<u>\$575,961</u>

**Note 5 - Grants Receivable - New York City Department of Education**

Grants receivable on the contract with the NYCDOE can be summarized as follows:

Per pupil funding:	
Beginning grant receivable/advance	\$0 !
Funding based on allowable FTE's	1,705,178 !
Advances received	<u>(1,704,207)</u>
Ending receivable - per pupil	<u>\$971 !</u>

**Note 6 - Temporarily Restricted Net Assets**

Temporarily restricted net assets at June 30, 2017 and net assets released from restriction in 2017 were related to a public charter school startup grant.

**Note 7 - Commitments**

In May 2016, the School entered into a non-cancelable lease agreement for educational and office space that expires on June 30, 2026. The following schedule outlines the future minimum payments for this lease:

Year ending: !	June 30, 2018	\$500,000 !
	June 30, 2019	800,000 !
	June 30, 2020	800,000 !
	June 30, 2021	800,000 !
	June 30, 2022	900,000 !
	Thereafter	<u>3,600,000 !</u>
Total !		<u>\$7,400,000</u>

**Note 8 - Significant Concentrations**

The School is dependent upon grants from the NYCDOE to carry out its operations. From inception through June 30, 2017, approximately 43% of the School's total public support and revenue was received from the NYCDOE. If the NYCDOE were to discontinue funding, it would have a severe economic impact on the School's ability to operate.

**Note 9 - Retirement Plan &**

The School adopted a defined contribution 401(k) profit sharing plan (the “Plan”), which covers most of the employees. Employees who are 21 years of age and older are eligible to enroll in the Plan after one month of service. The Plan provides for the School to fully match up to 3% of the participating employee’s salary as well as 50% of an additional 2% of an employee’s salary. The School’s contributions to the plan becomes fully vested when the employee completes six years of service. Total contributions to the plan totaled \$21,000 for the period from inception through June 30, 2017.

**Note 10 - Related Party Transactions**

The School is affiliated with Friends of School in the Square, Inc. (the “Organization”) through the use of shared members of their respective boards of directors. The Organization is a not-for-profit corporation established to support the creation of the School and function as the fundraising arm of the School.

During the period from inception through June 30, 2017, the Organization provided interest-free cash flow loans totaling \$365,000 to the School. All of these loans were repaid and there were not outstanding balances at June 30, 2017.

In addition, the Organization awarded various contributions to the School totaling \$715,000 during the period from inception through June 30, 2017, of which \$44,897 was receivable at June 30, 2017.

**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 Directors of  
School in the Square Public 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 School in the Square Public Charter School (the "School"), which comprise the statement of financial position as of June 30, 2017, and the related statements of activities, functional expenses, and cash flows from inception through June 30, 2017 and the related notes to the financial statements, and have issued our report thereon dated October 19, 2017.

**Internal Control over Financial Reporting**

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

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

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

## Compliance and Other Matters

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

## Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Schall & Ashenfarb  
Certified Public Accountants, LLC

October 19, 2017

**SCHOOL IN THE SQUARE PUBLIC CHARTER SCHOOL !  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS !  
JUNE 30, 2017 !**

Current Year:

None

Prior Year:

None – This was the first year of operations and audits had not been performed previously.

## **Observations and Recommendations**

To Management of  
School in the Square Public Charter School (the "School")

As a result of our audit for the year ended June 30, 2017, we want to make several observations with recommendations to help improve internal controls and operating efficiency:

### Independent Contractors versus Employees

When an employer pays an employee, the employer is subject to payroll taxes and certain benefits. Consultants and independent contractors are liable for their own payroll taxes and employee benefits. This is an area that has been under increased scrutiny by the IRS and Department of Labor in recent years.

We recommend that a review be made to determine if individuals that the School pays as independent contractors are properly classified as such. The IRS has published guidance on the traits of employees versus independent contractors that can assist with that determination. If the traits of the consultants are indicative of an employee, we recommend that you consider changing their status. If you decide that their status as independent contractors is more appropriate, we recommend that you review existing contracts and make modifications to document this decision.

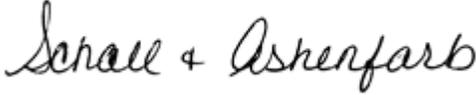
### Formalize Vacation Policy

The School has an informal, unwritten policy to pay out unused vacation time remaining at the end of the school year at a rate of \$100 per day. We recommend that the policy be formalized and included as part of the personnel handbook to avoid any potential disputes.

### Disaster Recovery Plan

All organizations should have plans to reduce the risk that data gets lost due to a fire, flood, terrorist attack or other disaster. This includes hard copy records as well as the backup of computer files. We recommend that a comprehensive plan be created that includes not only the backup of computer files, but a test to restore computer files. In addition, because in today's environment many documents are stored via electronic means (computers, hard drives and other electronic media), software upgrades are often made that make it impossible to read files that have been saved on older versions of the software. As part of a disaster recovery plan, the School should ensure that they can access and restore older files.

This communication is intended solely for the information and use of management, the board of directors, others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.



Schall & Ashenfarb  
Certified Public Accountants, LLC

October 19, 2017