

# **Classical Charter Schools**

Financial Statements and  
Uniform Guidance Schedules  
Together With Independent Auditors' Reports

June 30, 2017

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Financial Statements and  
Uniform Guidance Schedules  
Together With Independent Auditors' Reports

June 30, 2017

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## Independent Auditors' Report

### Board of Trustees Classical Charter Schools

### Report on the Financial Statements

We have audited the accompanying financial statements of Classical Charter Schools (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 for the year then ended, and the related notes to the financial statements.

### *Management's Responsibility for the Financial Statements*

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

### *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 School's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

***Opinion***

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

**Report on Supplementary Information**

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedules of financial position and activities by school as of and for the year ended June 30, 2017 on pages 14 and 15 are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying schedule of expenditures of federal awards on page 16 as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, 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 October 30, 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 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 the 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 the School's internal control over financial reporting and compliance.

*PKF O'Connor Davies, LLP*

Harrison, New York  
October 30, 2017

## Classical Charter Schools

### Statement of Financial Position June 30, 2017

#### **ASSETS**

##### Current Assets

Cash and cash equivalents	\$ 1,055,245
Investments	2,293,905
Grants and contracts receivable	981,057
Prepaid expenses and other current assets	<u>235,011</u>
Total Current Assets	4,565,218

Property and equipment, net	1,990,190
Restricted cash	248,357
Security deposits	<u>472,563</u>
	<u>\$ 7,276,328</u>

#### **LIABILITIES AND NET ASSETS**

##### Current Liabilities

Accounts payable and accrued expenses	\$ 273,642
Accrued payroll and payroll taxes	501,519
Refundable advances	<u>420,999</u>
Total Liabilities	<u>1,196,160</u>

##### Net Assets, Unrestricted

Undesignated	5,780,168
Board-designated	<u>300,000</u>
Total Net Assets, Unrestricted	<u>6,080,168</u>
	<u>\$ 7,276,328</u>

See notes to financial statements

## Classical Charter Schools

Statement of Activities  
Year Ended June 30, 2017

### REVENUE AND SUPPORT

State and local per pupil operating revenue	\$ 13,609,404
Federal grants	906,325
E-Rate and IDEA	49,332
State and city grants	66,494
Contributions	334,491
Investment income, net	20,476
Other income	<u>7,385</u>
Total Revenue and Support	<u>14,993,907</u>

### EXPENSES

Program Services	
Regular education	10,181,885
Special education	<u>765,834</u>
Total Program Services	10,947,719
Supporting Services	
Management and general	<u>3,018,517</u>
Total Expenses	<u>13,966,236</u>

Change in Net Assets 1,027,671

### NET ASSETS, UNRESTRICTED

Beginning of year	81,335
Transfer of net assets pursuant to merger of related charter schools	<u>4,971,162</u>
End of year	<u>\$ 6,080,168</u>

See notes to financial statements

**Classical Charter Schools**

Statement of Functional Expenses  
Year Ended June 30, 2017

	No. of Positions	Program Services			Management and General	Total
		Regular Education	Special Education	Total		
Personnel Services Costs						
Administrative staff personnel	36	\$ 885,583	\$ -	\$ 885,583	\$ 1,806,733	\$ 2,692,316
Instructional personnel	120	5,375,676	462,833	5,838,509	-	5,838,509
Non-instructional personnel	15	-	-	-	187,178	187,178
Total Salaries and Staff	<u>171</u>	<u>6,261,259</u>	<u>462,833</u>	<u>6,724,092</u>	<u>1,993,911</u>	<u>8,718,003</u>
Fringe benefits and payroll taxes		1,215,647	90,971	1,306,618	370,388	1,677,006
Retirement		207,206	15,378	222,584	62,984	285,568
Legal services		-	-	-	6,232	6,232
Accounting/Audit services		-	-	-	85,750	85,750
Other purchased/Professional/Consulting services		280,589	-	280,589	34,204	314,793
Building and land rent/Lease		392,891	48,519	441,410	165,779	607,189
Repairs and maintenance		33,182	3,864	37,046	13,543	50,589
Insurance		69,152	5,402	74,554	23,777	98,331
Utilities		24,789	3,060	27,849	10,459	38,308
Supplies/Materials		186,291	22,536	208,827	-	208,827
Equipment/Furnishing		12,562	878	13,440	3,647	17,087
Staff development		44,925	-	44,925	-	44,925
Marketing/Recruitment		99,923	7,765	107,688	31,361	139,049
Technology		72,477	5,615	78,092	22,243	100,335
Food services		30,075	3,638	33,713	-	33,713
Student services		681,540	67,633	749,173	87,018	836,191
Office expense		141,887	10,598	152,485	42,590	195,075
Depreciation and amortization		161,952	14,947	176,899	56,191	233,090
Other		265,538	2,197	267,735	8,440	276,175
Total Expenses		<u>\$ 10,181,885</u>	<u>\$ 765,834</u>	<u>\$ 10,947,719</u>	<u>\$ 3,018,517</u>	<u>\$ 13,966,236</u>

See notes to financial statements

**Classical Charter Schools**

Statement of Cash Flows  
Year Ended June 30, 2017

**CASH FLOWS FROM OPERATING ACTIVITIES**

Change in net assets	\$ 1,027,671
Adjustments to reconcile change in net assets to net cash from operating activities	
Depreciation and amortization	233,090
Unrealized gain on investments	(1,601)
Changes in operating assets and liabilities	
Grants and contracts receivable	(263,186)
Prepaid expenses and other current assets	(191,446)
Security deposits	212,272
Accounts payable and accrued expenses	78,655
Accrued payroll and payroll taxes	(85,173)
Refundable advances	416,364
Net Cash from Operating Activities	<u>1,426,646</u>

**CASH FLOWS FROM INVESTING ACTIVITIES**

Purchases of investments	(4,386,618)
Proceeds from sale of investments	5,525,138
Purchases of property and equipment	(1,601,091)
Restricted cash	<u>(75,266)</u>
Net Cash from Investing Activities	<u>(537,837)</u>

Net Change in Cash and Cash Equivalents 888,809

**CASH AND CASH EQUIVALENTS**

Beginning of year	<u>166,436</u>
End of year	<u>\$ 1,055,245</u>

See notes to financial statements



## Classical Charter Schools

Notes to Financial Statements  
June 30, 2017

### 1. School and Tax Status

Classical Charter Schools (the "School") is a New York State, not-for-profit educational corporation that operates charter Schools in the borough of Bronx, New York. The School's mission is to provide its students with a solid foundation for academic success, through achievement that exceeds citywide averages and meets or exceeds New York State standards and national norms in all curriculum areas tested, especially in mathematics and language arts. The accompanying financial statements include the following charter schools collectively forming the School:

South Bronx Classical Charter School I ("SBC I") – SBC I was granted a provisional charter on December 7, 2005, valid for a term of five years and renewable upon expiration by the Board of Regents of the New York State Education Department. SBC I obtained multiple renewals to its charter expiring on June 30, 2019.

South Bronx Classical Charter School II ("SBC II") – SBC II was granted a provisional charter on June 19, 2012, valid for a term of five years and renewable upon expiration by the Board of Regents of the New York State Education Department. SBC II will seek to obtain a renewal to its charter expiring on June 30, 2018.

South Bronx Classical Charter School III (SBC III") – SBC III was granted a provisional charter on November 18, 2014, valid for a term of five years and renewable upon expiration by the Board of Regents of the New York State Education Department. SBC III will seek to obtain a renewal to its charter expiring on June 30, 2020.

South Bronx Classical Charter School IV ("SBC IV") – SBC IV was granted a provisional charter on November 8, 2016, valid for a term of five years and renewable upon expiration by the Board of Regents of the New York State Education Department. SBC IV will seek to obtain a renewal to its charter expiring on June 30, 2022.

On April 19, 2016 the New York State Education Department Board of Regents approved the plan of merger of South Bronx Classical Charter School I, II, and III. Effective July 1, 2016, South Bronx Classical Charter School I, II, and III merged into a single legal entity under South Bronx Classical Charter School II, which serves as the sole surviving education corporation. South Bronx Classical Charter School II changed its name to Classical Charter Schools and all other Schools ceased to exist as legal entities. SBC IV was added to the School after the merger and opened in the fall of 2017.

The School provided education to approximately 917 students in grades kindergarten through eight during the 2016-2017 academic year.

SBC I shares space with a New York City public school beginning in August 2006. SBC I occupies approximately 28,500 square feet on two floors of a public school building. SBC I also shares the gymnasium, auditorium, and cafeteria with the public school which approximate 5,000 square feet. SBC I is not responsible for rent, utilities, custodial services, maintenance, and school safety services other than security related to the SBC I's programs that take place outside the district's school day.

## Classical Charter Schools

Notes to Financial Statements  
June 30, 2017

### 1. School and Tax Status *(continued)*

SBC II shares space with a New York City public school beginning in August 2013. SBC II occupies approximately 10,000 square feet on one floor of a public school building. SBC II also shares the gymnasium, auditorium, and cafeteria with the public school which approximate 6,726 square feet. SBC II is not responsible for rent, utilities, custodial services, maintenance, and school safety services other than security related to SBC II's programs that take place outside the district's school day.

The New York City Department of Education provides free lunches directly to some of the School's students. Such costs are not included in these financial statements. The School covers the unreimbursed cost of lunches for children not entitled to the free lunches. The Office of Pupil Transportation provides free transportation to the majority of the students during the district's School days.

Except for taxes that may be due for unrelated business income, the School is exempt from federal income taxes pursuant to Section 501(c)(3) of the Internal Revenue Code and from state and local income taxes under comparable laws.

### 2. Summary of Significant Accounting Policies

#### ***Basis of Presentation and Use of Estimates***

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"), which 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. Accordingly actual results could differ from those estimates.

#### ***Net Assets Presentation***

Resources for various purposes are classified for accounting and reporting purposes into net asset categories established according to nature and purpose as follows:

*Unrestricted* - consist of resources available for the general support of the School's operations. Unrestricted net assets may be used at the discretion of the School's management and Board of Trustees. The Board of Trustees has designated \$300,000 as a facility fund to be available to meet future needs of the School.

## Classical Charter Schools

Notes to Financial Statements  
June 30, 2017

### 2. Summary of Significant Accounting Policies *(continued)*

#### ***Net Assets Presentation (continued)***

*Temporarily Restricted* - represent amounts restricted by donors for specific activities of the School or to be used at some future date. The School records contributions as temporarily restricted if they are received with donor stipulations that limit their use either through purpose or time restrictions. When a donor restriction expires, that is, when a time restriction ends or a purpose restriction is fulfilled, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. However, when restrictions on donor-restricted contributions are met in the same accounting period in which they are received, such amounts are reported as unrestricted net assets.

*Permanently Restricted* - consist of net assets that are subject to donor imposed restrictions that require the School to maintain them permanently, including funds that are subject to restrictions of gift instruments requiring that the principal be invested in perpetuity and the income be used for specific or general purposes. Income and gains earned on endowment fund investments are available to be used in the unrestricted or temporarily restricted net asset classes based upon stipulations by the donors.

The School had no temporarily or permanently restricted net assets at June 30, 2017 and 2016.

#### ***Cash and Cash Equivalents***

The School considers all highly liquid financial instruments purchased with a maturity of three months or less to be cash equivalents.

#### ***Fair Value Measurements***

The School follows U.S. GAAP guidance on fair value measurements which defines fair value and establishes a fair value hierarchy organized into three levels based upon the input assumptions used in pricing assets. Level 1 inputs have the highest reliability and are related to assets with unadjusted quoted prices in active markets. Level 2 inputs relate to assets with other than quoted prices in active markets which may include quoted prices for similar assets or liabilities or other inputs which can be corroborated by observable market data. Level 3 inputs are unobservable inputs and are used to the extent that observable inputs do not exist.

#### ***Investment Valuation***

Investments are stated at fair value.

## Classical Charter Schools

Notes to Financial Statements  
June 30, 2017

### 2. Summary of Significant Accounting Policies *(continued)*

#### ***Investment Income Recognition***

Purchases and sales of securities are recorded on a trade date basis. Interest income is recorded on the accrual basis and dividends are recorded on the ex-dividend date. Realized and unrealized gains and losses are included in the determination of change in net assets.

#### ***Restricted Cash***

Under the provisions of its charter, the School established an escrow account to pay for legal and audit expenses that would be associated with a dissolution should it occur.

#### ***Property and Equipment***

The School follows the practice of capitalizing all expenditures for property and equipment with costs in excess of \$1,000 and a useful life in excess of one year. Leasehold improvements are amortized over the shorter of the term of the lease, inclusive of all renewal periods, which are reasonably assured, or the estimated useful life of the asset which is five years. Purchased property and equipment are recorded at cost at the date of acquisition. Minor costs of maintenance and repairs are expensed as incurred. All property and equipment purchased with government funding is capitalized, unless the government agency retains legal title to such assets, whereby such assets are expensed as incurred.

Furniture and fixtures	7 years
Computers and equipment	3, 5, and 7 years
Website	3 years

Property and equipment are reviewed for impairment if the use of the asset significantly changes or another indicator of possible impairment is identified. If the carrying amount for the asset is not recoverable, the asset is written down to the fair value. There were no asset impairments for the year ended June 30, 2017.

#### ***Revenue and Support***

Revenue from the state and local governments resulting from the School's charter status and based on the number of students enrolled is recorded when services are performed in accordance with the charter agreement. Federal and other state and local funds are recorded when expenditures are incurred and billable to the government agency.

Contributions are recognized when the donor makes a promise to give to the School that is, in substance, unconditional. Grants and other contributions of cash are reported as temporarily restricted support if they are received with donor stipulations. Restricted contributions and grants that are made to support the School's current year activities are recorded as unrestricted revenue. Contributions of assets other than cash are recorded at their estimated fair value at the date of donation.

## Classical Charter Schools

Notes to Financial Statements  
June 30, 2017

### 2. Summary of Significant Accounting Policies (*continued*)

#### ***Functional Expense Allocation***

The majority of expenses can generally be directly identified with the program or supporting service to which they relate and are charged accordingly. Other expenses by function have been allocated among program and supporting services classifications on the basis of periodic time and expense studies and other basis as determined by management of the School to be appropriate.

#### ***Accounting for Uncertainty in Income Taxes***

The School recognizes the effect of income tax positions only if those positions are more likely than not to be sustained. Management has determined that the School had no uncertain tax positions that would require financial statement recognition or disclosure. All Forms 990 since inception by the School are subject to examination.

#### ***Subsequent Events Evaluation by Management***

Management has evaluated subsequent events for disclosure and/or recognition in the financial statements through the date that the financial statements were available to be issued, which date is October 30, 2017.

### 3. Grants and Contracts Receivable

Grants and contracts receivable consists of federal, state, and city entitlements and grants. The School expects to collect these receivables within one year.

### 4. Fair Value of Investments

The School's investments as of June 30, 2017 consist of U.S. Treasury Bills in the amount of \$2,293,905 categorized as Level 1 in the fair value hierarchy.

The composition of investment return as reported in the statement of activities for the year ended June 30, 2017 is as follows:

Interest from investments	\$	15,927
Interest from other bank accounts		2,948
Net unrealized gain		<u>1,601</u>
	\$	<u>20,476</u>

## Classical Charter Schools

Notes to Financial Statements  
June 30, 2017

### 5. Property and Equipment

Property and equipment consists of the following at June 30, 2017:

Computers and equipment	\$ 663,509
Furniture and fixtures	389,034
Leasehold improvements	583,180
Construction in progress	1,336,868
Website	<u>49,875</u>
	3,022,466
Accumulated depreciation and amortization	<u>(1,032,276)</u>
	<u>\$ 1,990,190</u>

Construction in progress at June 30, 2017 is comprised of architect fees and other soft costs for the planning, development, and construction of SBC III's permanent facility.

### 6. Employee Benefit Plan

The School maintains a pension plan qualified under Internal Revenue Code 401(k) for the benefit of its eligible employees. Under the plan, the School provided matching contributions of 4% to the plan. The amount charged for matching contributions to this plan amounted to \$285,568 for the year ended June 30, 2017.

### 7. Concentration of Credit Risk

Financial instruments that potentially subject the School to concentrations of credit and market risk consist principally of cash and cash equivalents on deposit with financial institutions, which from time to time may exceed the Federal Deposit Insurance Corporation ("FDIC") limit. The School does not believe that a significant risk of loss due to the failure of a financial institution presently exists. As of June 30, 2017, approximately \$1,038,000 of cash was maintained with an institution in excess of FDIC limits.

### 8. Concentration of Revenue and Support

The School receives a substantial portion of its revenue and support from the New York City Department of Education. For the year ended June 30, 2017, the School received approximately 91% of total revenue and support from the New York City Department of Education. If the charter School laws were modified, reducing or eliminating these revenues, the School's finances could be materially adversely affected.

## Classical Charter Schools

Notes to Financial Statements  
June 30, 2017

### 9. Commitment

On June 29, 2015, SBC III entered into a lease agreement with 3490 Third Avenue Realty, LLC for the rental of temporary office/classroom space located in Bronx, New York. The lease term commenced on August 1, 2015 and expired on July 31, 2017. Under the terms of the lease, SBC III paid a security deposit in the amount of \$148,500. SBC III is responsible for utilities, custodial services, and maintenance. SBC III did not recognize rent expense on a straight-line basis due to the short term of this lease. Building and land rent/lease expense for the year ended June 30, 2017 was \$607,189. Future minimum lease payments under the preceding lease through July 31, 2017 totaled \$52,000. Upon expiration of this lease SBC III has paid rent on a monthly basis until they move into their permanent facility during November 2017.

On November 6, 2015, SBC III entered into a lease agreement with 3458 Third Avenue Realty LLC for the rental of permanent office/classroom space located in Bronx, New York. The lease term commences November 2017 and expires on July 31, 2037, with two options to extend the lease for an additional five years each. Under the terms of the lease, SBC III paid a security deposit in the amount of \$317,193 and prepaid rent in the amount of \$211,462. SBC III is responsible for real estate taxes, utilities, custodial services, and maintenance.

SBC IV entered into a lease agreement with Renaissance Youth Center for the rental of shared temporary office/classroom space located in Bronx, New York. The lease commenced on August 1, 2017 and expires on January 31, 2018. In addition, SBC IV pays a monthly license fee in an amount equal to twenty four dollars per square foot of shared space.

The future minimum lease payments under the two lease agreements are as follows for the years ending June 30:

2018	\$	1,549,069
2019		1,580,050
2020		1,611,651
2021		1,643,884
2022		1,676,762
Thereafter		<u>27,876,885</u>
	\$	<u>35,938,301</u>

### 10. Contingency

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.

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# **Classical Charter Schools**

Supplementary Information

June 30, 2017



**Classical Charter Schools**

Schedule of Financial Position by School  
June 30, 2017

	<u>SBC I</u>	<u>SBC II</u>	<u>SBC III</u>	<u>SBC IV</u>	<u>Total</u>
<b>ASSETS</b>					
Current assets					
Cash and cash equivalents	\$ 997,822	\$ 49,814	\$ 7,609	\$ -	\$ 1,055,245
Investments	2,293,905	-	-	-	2,293,905
Grants and contracts receivable	299,804	180,097	420,074	81,082	981,057
Due from affiliates	1,384,942	796,363	(2,009,305)	(172,000)	-
Prepaid expenses and other current assets	<u>54,202</u>	<u>(7,599)</u>	<u>188,408</u>	<u>-</u>	<u>235,011</u>
Total Current Assets	5,030,675	1,018,675	(1,393,214)	(90,918)	4,565,218
Property and equipment, net	232,162	269,655	1,426,374	61,999	1,990,190
Restricted cash	73,139	75,154	75,057	25,007	248,357
Security deposits	<u>-</u>	<u>-</u>	<u>472,563</u>	<u>-</u>	<u>472,563</u>
	<u>\$ 5,335,976</u>	<u>\$ 1,363,484</u>	<u>\$ 580,780</u>	<u>\$ (3,912)</u>	<u>\$ 7,276,328</u>
<b>LIABILITIES AND NET ASSETS</b>					
Current Liabilities					
Accounts payable and accrued expenses	\$ 105,409	33,538	116,945	17,750	\$ 273,642
Accrued payroll and payroll taxes	501,519	-	-	-	501,519
Refundable advances	<u>(569,140)</u>	<u>977,818</u>	<u>12,321</u>	<u>-</u>	<u>420,999</u>
Total Current Liabilities	<u>37,788</u>	<u>1,011,356</u>	<u>129,266</u>	<u>17,750</u>	<u>1,196,160</u>
Net Assets, Unrestricted					
Undesignated	4,998,188	352,128	451,514	(21,662)	5,780,168
Board-designated	<u>300,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>300,000</u>
Total Net Assets, Unrestricted	<u>5,298,188</u>	<u>352,128</u>	<u>451,514</u>	<u>(21,662)</u>	<u>6,080,168</u>
	<u>\$ 5,335,976</u>	<u>\$ 1,363,484</u>	<u>\$ 580,780</u>	<u>\$ (3,912)</u>	<u>\$ 7,276,328</u>

**Classical Charter Schools**

Schedule of Activities by School  
Year Ended June 30, 2017

	<u>SBC I</u>	<u>SBC II</u>	<u>SBC III</u>	<u>SBC IV</u>	<u>Total</u>
<b>REVENUE AND SUPPORT</b>					
State and local per pupil operating revenue	\$ 6,528,378	\$ 4,262,129	\$ 2,818,897	\$ -	\$ 13,609,404
Federal grants	235,193	124,357	407,843	138,932	906,325
E-Rate and IDEA	16,152	19,692	13,488	-	49,332
State and city grants	12,527	22,003	31,964	-	66,494
Contributions	317,075	7,333	10,083	-	334,491
Investment income	20,323	121	32	-	20,476
Other income	<u>2,337</u>	<u>1,624</u>	<u>3,424</u>	<u>-</u>	<u>7,385</u>
Total revenue and support	<u>7,131,985</u>	<u>4,437,259</u>	<u>3,285,731</u>	<u>138,932</u>	<u>14,993,907</u>
<b>EXPENSES</b>					
Program Services					
Regular education	5,005,086	3,124,548	2,005,098	47,153	10,181,885
Special education	<u>350,421</u>	<u>183,655</u>	<u>231,753</u>	<u>5</u>	<u>765,834</u>
Total Program Services	5,355,507	3,308,203	2,236,851	47,158	10,947,719
Supporting Services					
Management and general	<u>1,241,918</u>	<u>858,263</u>	<u>804,900</u>	<u>113,436</u>	<u>3,018,517</u>
Total Expenses	<u>6,597,425</u>	<u>4,166,466</u>	<u>3,041,751</u>	<u>160,594</u>	<u>13,966,236</u>
 Change in Net Assets	534,560	270,793	243,980	(21,662)	1,027,671
<b>NET ASSETS, UNRESTRICTED</b>					
Beginning of year	<u>-</u>	<u>81,335</u>	<u>-</u>	<u>-</u>	<u>81,335</u>
Transfer of net assets pursuant to merger of related charter schools	<u>4,763,628</u>	<u>-</u>	<u>207,534</u>	<u>-</u>	<u>4,971,162</u>
End of year	<u>\$ 5,298,188</u>	<u>\$ 352,128</u>	<u>\$ 451,514</u>	<u>\$ (21,662)</u>	<u>\$ 6,080,168</u>

# **Classical Charter Schools**

Uniform Guidance  
Reports and Schedules

June 30, 2017

**Classical Charter Schools**

Schedule of Expenditures of Federal Awards  
Year Ended June 30, 2017

Federal Grantor/Pass-through Grantor Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Passed through to Subrecipients	Total Federal Expenditures
U.S. Department of Education				
Passed Through the New York State				
Education Department:				
Title I Grants to Local Educational Agencies	84.010	021-17-4361	\$ -	\$ 226,808
Title I Grants to Local Educational Agencies	84.010	021-17-5030	-	117,536
Title I Grants to Local Educational Agencies	84.010	021-17-5185	-	118,489
			<u>-</u>	<u>462,833</u>
Improving Teacher Quality State Grants	84.367	0147-17-4361	-	8,385
Improving Teacher Quality State Grants	84.367	0147-17-5030	-	6,821
Improving Teacher Quality State Grants	84.367	0147-17-5185	-	6,405
			<u>-</u>	<u>21,611</u>
Charter School Program	84.282A	0089-17-1219	-	282,949
Charter School Program	84.282A	0089-17-0119	-	138,932
			<u>-</u>	<u>421,881</u>
Total Expenditures of Federal Awards			<u>-</u>	<u>\$ 906,325</u>

See independent auditors' report and notes to the schedule of expenditures of federal awards

## Classical Charter Schools

### Notes to Schedule of Expenditures of Federal Awards Year Ended June 30, 2017

#### **1. Basis of Presentation**

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of the School under programs of the federal government for the year ended June 30, 2017. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Because the Schedule presents only a selected portion of the operations of the School, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the School.

#### **2. Summary of Significant Accounting Policies**

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

#### **3. Non-Monetary Assistance**

Non-monetary assistance is reported in the Schedule based on the amount disbursed or received. The School received no non-monetary assistance for the year ended June 30, 2017.

#### **4. Indirect Cost Rate**

The School has elected not use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

**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 Auditors' Report**

**Board of Trustees  
Classical Charter Schools**

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 Classical Charter Schools (the "School"), which comprise the statement of financial position as of June 30, 2017, and the related statements of activities, functional expense and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 30, 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 of the School's internal control. Accordingly, we do not express an opinion on the effectiveness of the School's internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the 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 the 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 School's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*PKF O'Connor Davies, LLP*

Harrison, New York  
October 30, 2017



## **Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance**

### **Independent Auditors' Report**

#### **Board of Trustees Classical Charter Schools**

#### **Report on Compliance for Each Major Federal Program**

We have audited Classical Charter Schools (the "School") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the School's major federal programs for the year ended June 30, 2017. The School's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

#### ***Management's Responsibility***

Management is responsible for compliance with federal statutes, regulations, the terms and conditions of its federal awards applicable to its federal programs.

#### ***Auditors' Responsibility***

Our responsibility is to express an opinion on compliance for each of the School's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the School's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the School's compliance.



***Opinion on Each Major Federal Program***

In our opinion, the School complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

***Report on Internal Control over Compliance***

Management of the School is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the School's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the School's internal control over compliance.

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

Our consideration of internal control over compliance 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 compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

*PKF O'Connor Davies, LLP*

**Classical Charter Schools**

Notes to Schedule of Expenditures of Federal Awards  
Year Ended June 30, 2017

**Section I - Summary of Auditors' Results**

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP:

Unmodified

Internal control over financial reporting:

Material weakness(es) identified?

\_\_\_\_\_ yes  X  no

Significant deficiency(ies) identified?

\_\_\_\_\_ yes  X  none reported

Noncompliance material to the financial statements noted?

\_\_\_\_\_ yes  X  no

Federal Awards

Internal control over major federal programs:

Material weakness(es) identified?

\_\_\_\_\_ yes  X  no

Significant deficiency(ies) identified?

\_\_\_\_\_ yes  X  none reported

Type of auditors' report issued on compliance for major federal programs:

Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?

\_\_\_\_\_ yes  X  no

Identification of major federal programs:

CFDA Number(s)

84.010

Name of Federal Program or Cluster

Title I Grants to Local Educational Agencies

Dollar threshold used to distinguish between type A and type B programs:

\$750,000

Auditee qualified as low-risk auditee?

\_\_\_\_\_ yes  X  no

**Section II - Financial Statement Findings**

There were no current year findings.

**Section III – Federal Award Findings and Questioned Costs**

During our audit, we noted no instances of noncompliance and none of the costs reported in the federal financially assisted programs are questioned or recommended to be disallowed.

**Section IV - Prior Years Findings**

There were no prior year audit findings.