

The Williamsburg Charter High School

Financial Statements

June 30, 2017 and 2016

Independent Auditors' Report

Board of Trustees The Williamsburg Charter High School

We have audited the accompanying financial statements of The Williamsburg Charter High 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 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.

Prior Period Financial Statements

The summarized comparative financial statements as of June 30, 2016 and for the year then ended, were audited by other auditors who ceased operations. Those auditors expressed an unmodified opinion on those financial statements in their report dated October 24, 2016.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 11, 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 11, 2017

The Williamsburg Charter High School

Statement of Financial Position
June 30, 2017
(with comparative amounts at June 30, 2016)

	<u>2017</u>	<u>2016</u>
ASSETS		
Current Assests		
Cash and cash equivalents	\$ 6,132,887	\$ 5,511,214
Grants and contracts receivable	820,060	740,696
Prepaid expenses	<u>5,385</u>	<u>32,835</u>
Total Current Assets	6,958,332	6,284,745
Property and equipment, net	2,149,978	2,181,491
Security deposits	1,523,923	1,535,690
Restricted cash	<u>75,600</u>	<u>75,577</u>
	<u>\$ 10,707,833</u>	<u>\$ 10,077,503</u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable and accrued expenses	\$ 122,697	\$ 584,645
Accrued payroll and payroll taxes	545,853	532,696
Refundable advances	<u>75,220</u>	<u>21,509</u>
Total Current Liabilities	743,770	1,138,850
Deferred rent	<u>7,673,412</u>	<u>6,756,615</u>
Total Liabilities	8,417,182	7,895,465
Net assets, unrestricted	<u>2,290,651</u>	<u>2,182,038</u>
	<u>\$ 10,707,833</u>	<u>\$ 10,077,503</u>

See notes to financial statements

The Williamsburg Charter High School

Statement of Activities
Year Ended June 30, 2017
(with summarized totals for the year ended June 30, 2016)

	<u>2017</u>	<u>2016</u>
REVENUE AND SUPPORT		
State and local per pupil operating revenue	\$ 14,974,829	\$ 15,132,783
Federal grants	605,222	624,001
State and city grants	133,204	126,582
Contributions and grants	6,000	-
Donated services	35,750	28,800
Interest income	810	1,061
Other income	<u>231,945</u>	<u>314,396</u>
Total Revenue and Support	<u>15,987,760</u>	<u>16,227,623</u>
EXPENSES		
Program Services		
Regular education	12,099,530	11,781,272
Special education	<u>1,814,818</u>	<u>1,796,602</u>
Total Program Services	13,914,348	13,577,874
Supporting Services		
Management and general	<u>1,964,799</u>	<u>1,836,250</u>
Total Expenses	<u>15,879,147</u>	<u>15,414,124</u>
Change in Net Assets	108,613	813,499
NET ASSETS, UNRESTRICTED		
Beginning of year	<u>2,182,038</u>	<u>1,368,539</u>
End of year	<u>\$ 2,290,651</u>	<u>\$ 2,182,038</u>

See notes to financial statements

The Williamsburg Charter High School

Statement of Functional Expenses
Year Ended June 30, 2017
(with summarized totals for the year ended June 30, 2016)

	2017			Management and General	Total	2016
	Regular Education	Special Education	Total			
Salaries	\$ 6,689,295	\$ 792,762	\$ 7,482,057	\$ 375,364	\$ 7,857,421	\$ 7,557,969
Payroll taxes and employee benefits	1,292,165	141,919	1,434,084	67,199	1,501,283	1,406,170
Equipment	35,939	31,710	67,649	7,258	74,907	81,005
Accounting and audit fees	-	-	-	43,250	43,250	32,500
Legal	-	-	-	165,000	165,000	135,000
Consultants	210,313	162,643	372,956	128,873	501,829	555,975
Contracted services	60,659	5,374	66,033	6,332	72,365	51,968
Donated professional services	14,983	11,587	26,570	9,180	35,750	28,800
Supplies and materials	154,261	34,459	188,720	27,030	215,750	278,010
Travel and conference	24,566	3,394	27,960	-	27,960	28,591
Staff development	17,089	4,982	22,071	2,762	24,833	30,829
Insurance	190,293	23,076	213,369	18,098	231,467	247,546
Printing	10,083	9,360	19,443	1,840	21,283	21,104
Telephone	27,089	2,779	29,868	1,090	30,958	28,639
School events and expenses	240,672	37,654	278,326	-	278,326	209,027
Marketing and recruiting	13,382	2,537	15,919	3,980	19,899	29,482
Occupancy	2,659,909	466,456	3,126,365	548,772	3,675,137	3,675,137
Utilities	259,195	45,953	305,148	7,206	312,354	323,880
Repairs and maintenance	-	-	-	466,180	466,180	363,120
Licenses and permits	-	-	-	20,263	20,263	25,898
Fire safety and alarm	-	-	-	25,854	25,854	25,467
Postage and copying	15,069	3,687	18,756	578	19,334	17,683
Copier leasing	27,969	7,055	35,024	8,301	43,325	25,884
Depreciation and amortization	146,721	26,023	172,744	20,410	193,154	208,350
Interest expense	-	-	-	-	-	7,674
Miscellaneous	9,878	1,408	11,286	9,979	21,265	18,416
Total Expenses	\$ 12,099,530	\$ 1,814,818	\$ 13,914,348	\$ 1,964,799	\$ 15,879,147	\$ 15,414,124

See notes to financial statements

The Williamsburg Charter High School

Statement of Cash Flows
Year Ended June 30, 2017
(with summarized amounts for the year ended June 30, 2016)

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 108,613	\$ 813,499
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation and amortization	193,154	208,350
Deferred rent	916,797	1,454,536
Prior period adjustment	-	(457,399)
Changes in operating assets and liabilities		
Grants and contracts receivable	(79,364)	(193,570)
Prepaid expenses	27,450	(20,286)
Security deposits	11,767	-
Accounts payable and accrued expenses	(461,948)	88,687
Accrued payroll and payroll taxes	13,157	35,225
Refundable advances	53,711	(14,072)
Net Cash from Operating Activities	783,337	1,914,970
 CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(161,641)	(193,346)
Restricted cash	(23)	(22)
Net Cash from Investing Activities	(161,664)	(193,368)
 Net Change in Cash and Cash Equivalents	621,673	1,721,602
 CASH AND CASH EQUIVALENTS		
Beginning of year	5,511,214	3,789,612
End of year	\$ 6,132,887	\$ 5,511,214
 SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the year for interest	\$ -	\$ 7,674

See notes to financial statements

The Williamsburg Charter High School

Notes to Financial Statements
June 30, 2017 and 2016

1. Organization and Tax Status

The Williamsburg Charter High School (the "School") is a New York State, not-for-profit educational corporation that operates as a charter school in the borough of Brooklyn, New York City. On February 23, 2004, the Board of Regents of the University of the State of New York Board of Regents for and on behalf of the State Education Department granted the School a provisional charter valid for a term of five years from the effective date of February 23, 2004 and renewable upon expiration. On May 19, 2014 the Board of Regents approved and issued the renewal to the charter for a period of five years effective until June 30, 2019. The School's mission is to equip students with the academic and character skills necessary to succeed in high school, college and the competitive world beyond. The School provided education to approximately 954 students in ninth through twelfth grades during the 2016-2017 academic year.

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

Except for taxes that may be due for unrelated business income, the School is exempt from federal income taxes under 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 Williamsburg Charter High School

Notes to Financial Statements
June 30, 2017 and 2016

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

Cash and cash equivalents include cash balances held in bank accounts and highly liquid debt instruments with maturities of three months or less at the time of purchase.

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 \$3,000 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 thirty 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.

The Williamsburg Charter High School

Notes to Financial Statements
June 30, 2017 and 2016

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

Property and Equipment (continued)

Depreciation and amortization is recognized on the straight-line method over the estimated useful lives of such assets as follows:

Equipment	5 years
Furniture and fixtures	5 years
Software	5 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 years ended June 30, 2017 and 2016.

Refundable Advances

The School records certain government operating revenue as refundable advances until related services are performed, at which time they are recognized as revenue.

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.

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.

The Williamsburg Charter High School

Notes to Financial Statements
June 30, 2017 and 2016

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

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. The School is no longer subject to examinations by the applicable taxing jurisdictions for years prior to June 30, 2014.

Deferred Rent

The School records its rent in accordance with U.S. GAAP guidance whereby all rental payments, including fixed rent increases, are recognized on a straight-line basis as an offset to rent expense. The difference between the straight-line rent expense and the required lease payments, as well as any unamortized lease incentives, is reflected in deferred rent in the accompanying statement of financial position.

Prior Year Summarized Comparative Financial Information

The financial statements include prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. GAAP. Accordingly, such information should be read in conjunction with the School's financial statements for the year ended June 30, 2016, from which the summarized information was derived.

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 11, 2017.

3. Grants and Contracts Receivable

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

The Williamsburg Charter High School

Notes to Financial Statements June 30, 2017 and 2016

4. Property and Equipment

Property and equipment consists of the following at June 30:

	<u>2017</u>	<u>2016</u>
Furniture and fixtures	\$ 168,495	\$ 1,057,604
Equipment	355,769	346,234
Software	199,295	137,200
Leasehold improvements	<u>2,343,316</u>	<u>2,264,426</u>
	3,066,875	3,805,464
Accumulated depreciation and amortization	<u>(916,897)</u>	<u>(1,623,973)</u>
	<u>\$ 2,149,978</u>	<u>\$ 2,181,491</u>

During the year ended June 30, 2017 the School disposed of fully depreciated property and equipment totaling \$900,230.

5. Employee Benefit Plan

The School maintains a defined contribution 403(b) plan on behalf of its employees. The School provides matching contributions up to 4% of annual compensation on a discretionary basis. Employee match for the years ended June 30, 2017 and 2016 amounted to \$52,115 and \$0.

6. 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 \$5,708,000 of cash was maintained with two institutions in excess of FDIC limits.

7. 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 years ended June 30, 2017 and 2016, the School received approximately 94% and 93% 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.

8. Commitment

In March 2009, the School entered into a lease agreement expiring July 31, 2039 to lease new facilities for the School located at 198-202 Varet Street, Brooklyn, New York. The School occupied the space September 1, 2010.

The Williamsburg Charter High School

Notes to Financial Statements
June 30, 2017 and 2016

8. Commitment (*continued*)

The lease provides for rent escalations and the School is responsible for utilities, real estate taxes, and other operating expenses.

The future minimum lease payments under the lease through June 31, 2039 are as follows:

Year ending June 30, 2018	\$ 2,841,090
2019	2,926,323
2020	3,014,113
2021	3,104,536
2022	3,197,672
Thereafter	<u>77,117,837</u>
	<u>\$ 92,201,571</u>

Rent expense is recognized on the straight-line basis. The differences between cash payments under the lease agreement and the straight-line rent have been recognized as deferred rent in the accompanying statements of financial position from inception of the lease. The difference between rent cash payments and straight-line rent recorded in the statement of financial position amounted to \$916,797 and \$997,137 for the years ended June 30, 2017 and 2016.

Rent expense under the operating lease for the years ended June 30, 2017 and 2016 was \$3,675,137.

9. Donated Services

Donated services are recognized as contributions in accordance with U.S. GAAP if the services (a) create or enhance non-financial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the School and (c) are measurable. One entity has provided accounting and financial services to the School at no charge. The value of these services meets the criteria for recognition in the financial statements and is recorded at fair value. For the years ended June 30, 2017 and 2016, the value of such donated services amounted to \$35,750 and \$28,800.

The value of these donated services is allocated accordingly between program, management and general services in the accompanying statements of activities and statement of functional expenses.

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 reimbursements. 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.

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
The Williamsburg Charter High 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 The Williamsburg Charter High 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 for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 11, 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 11, 2017