



**The Brooklyn  
Charter School**  
BUILDING BRIDGES TO TOMORROW

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

**June 30, 2016**

# BROOKLYN CHARTER SCHOOL

## Table of Contents

|   | <b><u>Page</u></b> |
|---|--------------------|
| Independent Auditors' Report  | 1 - 2              |
| Statement of Financial Position   | 3                  |
| Statement of Activities   | 4                  |
| Statement of Functional Expenses  | 5                  |
| Statement of Cash Flows   | 6                  |
| Notes to Financial Statements   | 7 - 14             |
| Report on Internal Control over Financial Reporting and on Compliance<br>and Other Matters Based on an Audit of Financial Statements<br>Performed in Accordance with <i>Government Auditing Standards</i> | 15 - 16            |
| Schedule of Findings and Responses  | 17                 |

## **INDEPENDENT AUDITORS' REPORT**

To the Board of Trustees of  
Brooklyn Charter School

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

We have audited the accompanying financial statements of the Brooklyn Charter School ("the School"), which comprise the statement of financial position as of June 30, 2016, 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 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**

As more fully described in Note 1 to the financial statements, the School is the sole member of another not-for-profit organization, The Wedding Garden, Inc. ("WG"). WG is being accounted for on the equity method of accounting. Accounting principles generally accepted in the United States of America requires the consolidation of this other entity and an elimination of intercompany transactions.

In our opinion, except for the effects of the departure of the accounting principle discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the Brooklyn Charter School as of June 30, 2016, 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 Summarized Comparative Information**

We have previously audited the School's 2015 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 19, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015 is consistent, in all material respects, with the audited financial statements from which it has been derived.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 27, 2016 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 27, 2016

**BROOKLYN CHARTER SCHOOL**  
**STATEMENT OF FINANCIAL POSITION**  
**AT JUNE 30, 2016**  
(With comparative totals at June 30, 2015)

|  | <u>6/30/16</u>            | <u>6/30/15</u>            |
|--|---------------------------|---------------------------|
| <b>Assets</b>                            |                           |                           |
| Cash and cash equivalents                | \$26,860                  | \$202,218                 |
| Restricted cash (Note 3)                 | 70,000                    | 70,000                    |
| Investments (Note 4)                     | 2,630,818                 | 3,035,696                 |
| Government grants receivable             | 136,618                   | 11,799                    |
| Contributions receivable                 | 20,000                    | 15,000                    |
| Prepaid expenses and other receivables   | 49,277                    | 40,414                    |
| Employee loans receivable (Note 6)       | 34,164                    | 43,886                    |
| Investment in The Wedding Garden, Inc.   | 93,378                    | 81,267                    |
| Fixed assets, net (Note 7)               | <u>113,546</u>            | <u>71,797</u>             |
| Total assets                             | <u><u>\$3,174,661</u></u> | <u><u>\$3,572,077</u></u> |
| <b>Liabilities and Net Assets</b>        |                           |                           |
| <b>Liabilities:</b>                      |                           |                           |
| Accounts payable and accrued expenses    | \$593,894                 | \$535,327                 |
| Advance payable - New York City (Note 5) | <u>693</u>                | <u>10,595</u>             |
| Total liabilities                        | <u>594,587</u>            | <u>545,922</u>            |
| <b>Net Assets:</b>                       |                           |                           |
| Unrestricted                             | 2,213,407                 | 2,647,022                 |
| Temporarily restricted (Note 8)          | 0                         | 12,466                    |
| Permanently restricted (Note 9)          | <u>366,667</u>            | <u>366,667</u>            |
| Total net assets                         | <u>2,580,074</u>          | <u>3,026,155</u>          |
| Total liabilities and net assets         | <u><u>\$3,174,661</u></u> | <u><u>\$3,572,077</u></u> |

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

**BROOKLYN CHARTER SCHOOL**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2016**  
(With comparative totals for the year ended June 30, 2015)

|   | <u>Unrestricted</u> | <u>Temporarily<br/>Restricted</u> | <u>Permanently<br/>Restricted</u> | <u>Total<br/>6/30/16</u> | <u>Total<br/>6/30/15</u> |
|---|---------------------|-----------------------------------|-----------------------------------|--------------------------|--------------------------|
| Public Support and Revenue:                           |                     |                                   |                                   |                          |                          |
| Public school district: (Note 5)                      |                     |                                   |                                   |                          |                          |
| Revenue - resident student enrollment                 | \$3,277,400         |                                   |                                   | \$3,277,400              | \$3,195,892              |
| Revenue - students with special<br>education services | 248,979             |                                   |                                   | 248,979                  | 143,733                  |
| Total public school district                          | 3,526,379           | 0                                 | 0                                 | 3,526,379                | 3,339,625                |
| Government grants                                     | 172,170             |                                   |                                   | 172,170                  | 121,645                  |
| Contributions   | 75,556              |                                   |                                   | 75,556                   | 75,197                   |
| In-kind contributions                                 | 688,000             |                                   |                                   | 688,000                  | 672,607                  |
| Interest and dividends                                | 77,151              | 9,343                             |                                   | 86,494                   | 89,387                   |
| Other income  | 44,851              |                                   |                                   | 44,851                   | 38,329                   |
| Total public support and revenue                      | <u>4,584,107</u>    | <u>9,343</u>                      | <u>0</u>                          | <u>4,593,450</u>         | <u>4,336,790</u>         |
| Expenses:   |                     |                                   |                                   |                          |                          |
| Program services:                                     |                     |                                   |                                   |                          |                          |
| Instructional support                                 | 4,096,116           |                                   |                                   | 4,096,116                | 3,609,463                |
| Supporting services:                                  |                     |                                   |                                   |                          |                          |
| Management and general                                | 951,205             |                                   |                                   | 951,205                  | 1,020,267                |
| Total expenses  | <u>5,047,321</u>    | <u>0</u>                          | <u>0</u>                          | <u>5,047,321</u>         | <u>4,629,730</u>         |
| Change in net assets from operations                  | (463,214)           | 9,343                             | 0                                 | (453,871)                | (292,940)                |
| Non operating activity:                               |                     |                                   |                                   |                          |                          |
| Increase of investment in                             |                     |                                   |                                   |                          |                          |
| The Wedding Garden, Inc. (Note 1)                     | 212,111             |                                   |                                   | 212,111                  | 196,476                  |
| Net realized and unrealized<br>loss on investments    | (182,512)           | (21,809)                          |                                   | (204,321)                | (62,677)                 |
| Change in net assets                                  | (433,615)           | (12,466)                          | 0                                 | (446,081)                | (159,141)                |
| Net assets - beginning of year                        | <u>2,647,022</u>    | <u>12,466</u>                     | <u>366,667</u>                    | <u>3,026,155</u>         | <u>3,185,296</u>         |
| Net assets - end of year                              | <u>\$2,213,407</u>  | <u>\$0</u>                        | <u>\$366,667</u>                  | <u>\$2,580,074</u>       | <u>\$3,026,155</u>       |

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

**BROOKLYN CHARTER SCHOOL**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**FOR THE YEAR ENDED JUNE 30, 2016**  
(With comparative totals for the year ended June 30, 2015)

|  | <u>Program<br/>Services</u>      | <u>Supporting<br/>Services</u>        | <u>Total<br/>Expenses</u> | <u>Total<br/>Expenses</u> |
|--|----------------------------------|---------------------------------------|---------------------------|---------------------------|
|  | <u>Instructional<br/>Support</u> | <u>Management<br/>and<br/>General</u> | <u>6/30/16</u>            | <u>6/30/15</u>            |
| Salaries                                 | \$2,370,569                      | \$511,566                             | \$2,882,135               | \$2,667,875               |
| Payroll taxes and employee benefits      | 479,072                          | 103,383                               | 582,455                   | 594,615                   |
| Retirement                               | 70,379                           | 15,188                                | 85,567                    | 75,786                    |
| Total personnel costs                    | <u>2,920,020</u>                 | <u>630,137</u>                        | <u>3,550,157</u>          | <u>3,338,276</u>          |
| Professional development                 | 69,044                           |                                       | 69,044                    | 59,831                    |
| Legal                                    |                                  | 12,785                                | 12,785                    | 5,000                     |
| Professional fees                        | 81,725                           | 88,765                                | 170,490                   | 99,142                    |
| Student and staff recruitment            |                                  | 61,273                                | 61,273                    | 69,939                    |
| Supplies and materials                   | 224,617                          |                                       | 224,617                   | 55,561                    |
| Office expense                           | 27,241                           | 5,879                                 | 33,120                    | 35,226                    |
| Student services                         | 111,713                          |                                       | 111,713                   | 101,645                   |
| Insurance                                | 53,908                           | 11,633                                | 65,541                    | 54,451                    |
| Technology                               | 7,020                            | 1,515                                 | 8,535                     | 7,848                     |
| Repairs and maintenance                  | 1,907                            | 412                                   | 2,319                     | 13,430                    |
| Occupancy and facility costs - (in-kind) | 565,883                          | 122,117                               | 688,000                   | 672,607                   |
| Depreciation                             | 26,782                           | 5,382                                 | 32,164                    | 29,033                    |
| Bad debt                                 |                                  |                                       | 0                         | 73,885                    |
| Other                                    | 6,256                            | 11,307                                | 17,563                    | 13,856                    |
| Total other than personnel costs         | <u>1,176,096</u>                 | <u>321,068</u>                        | <u>1,497,164</u>          | <u>1,291,454</u>          |
| Total expenses                           | <u><u>\$4,096,116</u></u>        | <u><u>\$951,205</u></u>               | <u><u>\$5,047,321</u></u> | <u><u>\$4,629,730</u></u> |

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

**BROOKLYN CHARTER SCHOOL**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED JUNE 30, 2016**  
(With comparative totals for the year ended June 30, 2015)

|   | <u>6/30/16</u>         | <u>6/30/15</u>          |
|---|------------------------|-------------------------|
| Cash flows from operating activities:   |                        |                         |
| Change in net assets  | (\$446,081)            | (\$159,141)             |
| Adjustments to reconcile change in net assets<br>to net cash used for operating activities: |                        |                         |
| Realized and unrealized loss on investments   | 204,321                | 62,677                  |
| Increase of investment in The Wedding Garden, Inc.  | (212,111)              | (196,476)               |
| Depreciation expense  | 32,164                 | 29,033                  |
| Changes in assets and liabilities:  |                        |                         |
| Grant receivable - New York City  | 0                      | 88,527                  |
| Government grants receivable  | (124,819)              | 86,915                  |
| Contributions receivable  | (5,000)                | 10,000                  |
| Prepaid expenses and other receivables  | (8,863)                | 16,080                  |
| Employee loans receivable   | 9,722                  | (43,886)                |
| Accounts payable and accrued expenses   | 58,567                 | 86,911                  |
| Advance payable - New York City   | (9,902)                | 10,595                  |
| Total adjustments   | <u>(55,921)</u>        | <u>150,376</u>          |
| Net cash used for operating activities  | <u>(502,002)</u>       | <u>(8,765)</u>          |
| <br>Cash flows from investing activities:   |                        |                         |
| Purchase of furniture and equipment   | (73,913)               | (36,234)                |
| Purchase of investments   | (749,618)              | (498,104)               |
| Proceeds from sales of investments  | 950,175                | 421,094                 |
| Net cash received from The Wedding Garden, Inc.   | 200,000                | 200,000                 |
| Net cash provided by investing activities   | <u>326,644</u>         | <u>86,756</u>           |
| <br>Net (decrease)/increase in cash and cash equivalents                                    | (175,358)              | 77,991                  |
| <br>Cash and cash equivalents - beginning of year   | <u>202,218</u>         | <u>124,227</u>          |
| <br>Cash and cash equivalents - end of year   | <u><u>\$26,860</u></u> | <u><u>\$202,218</u></u> |
| <br>Supplemental disclosures:   |                        |                         |
| Interest and taxes paid   | <u><u>\$0</u></u>      | <u><u>\$0</u></u>       |

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

**BROOKLYN CHARTER SCHOOL  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016**

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

Brooklyn Charter School (“the School”), located in Brooklyn, New York, is a not-for-profit education corporation chartered by the Regents of the University of the State of New York. The School provides a full range of educational services appropriate for grade levels K, 1, 2, 3, 4 and 5. The School completed the 2015-2016 fiscal year with an average enrollment of approximately 236 students. The School is a publicly funded, privately managed school, which is independent of the New York City Department of Education (“NYCDOE”).

On June 21, 2011, the Board of Regents of the University of the State of New York, for and on behalf of the State Education Department, extended the provisional charter up through and including June 30, 2016. On February 24, 2016, the Board of Regents granted an extension of the Charter up through and including June 30, 2019.

The School is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes has been reflected in the accompanying financial statements. They have not been designated as a private foundation.

The School is the sole member of The Wedding Garden, Inc. (“WG”), an organization exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code. To satisfy requirements of NYCDOE to report financial information on activity of charter school separate from non-operating activity, the School has elected to treat its sole membership as an investment under the equity method, which differs from accounting principles generally accepted in the United States of America (“U.S. GAAP”). Under U.S. GAAP, organizations are required to consolidate financial statements of both entities and to eliminate intercompany transactions.

**Note 2 - Significant Accounting Policies**

a. Basis of Presentation

The accompanying 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.

The School’s 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 and grants, the requirements of which are met in the year of donation, are reported as unrestricted.

- *Permanently restricted* – accounts for activity restricted by donors that must remain intact in perpetuity.

b. Revenue Recognition

Public school district revenue is recognized based on rates established by the School's funding source and the amount realizable on the accrual basis in the period during which services are provided.

The terms of each government grant are reviewed to determine if they contain traits more closely associated with contributions or exchange transactions. Management has determined that all existing government grants are exchange transactions because they contain traits more similar to contracts for service. The difference between revenue earned and cash received is reflected as grants receivable or advances payable.

Contributions are recorded as revenue at the earlier of the receipt of cash or when pledges are considered unconditional in nature. Contributions are available for unrestricted use, unless specifically restricted by the donor, in which case they are recorded in one of the restricted classes of net assets, depending on the nature of the restriction.

Contributions expected to be received within one year are recorded at net realizable value. Long-term pledges are recorded at fair value using a risk adjusted discounted rate. Conditional contributions are recognized as income when the conditions have been substantially met.

c. Cash and Cash Equivalents

Checking and money market accounts with local banks and highly liquid debt instruments purchased with a maturity of three months or less are considered to be cash and cash equivalents for purposes of the accompanying statement of cash flows. Cash maintained in escrow per requirements of NYCDOE are treated as restricted cash.

d. Investments

Investments are recorded at fair value, which refers to the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. Realized and unrealized gains and losses are recognized in the statement of activities.

e. Accounts Receivable – Meal Fees

Meal fees are charged to students who do not qualify for free lunch because of certain family income thresholds.

The School reviews receivables and records an allowance for doubtful accounts on those receivables they feel is unlikely to be collected based on historical experience and a review of activity subsequent to the balance sheet date.

f. Fixed Assets

Fixed assets are stated at cost or at fair value at the date of gift, if donated. The School capitalizes fixed assets in excess of pre-defined amounts that have a useful life of more than one year. Depreciation was computed using the straight-line method over the estimated useful lives of the respective assets, which generally are between 5 and 7 years.

g. Contributed Space

The School's operations are located in a facility provided by NYCDOE at a charge of \$1.00 per annum and utilizes approximately 13,750 square feet. As such, the School has recorded the estimated fair value of this space as revenue and expense in the financial statements.

h. Functional Allocation of Expenses

The costs of providing various programs and other activities have been summarized on a functional basis in the accompanying financial statements. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

i. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

j. Summarized Comparative Information

The financial statements include certain 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 accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the School's financial statements for the year ended June 30, 2015, from which the summarized information was derived.

k. Accounting for Uncertainty in Income Taxes

The School does not believe its financial statements include any material, uncertain tax positions. Tax returns for periods ending June 30, 2013 and later are subject to examination by applicable taxing authorities.

l. 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. The School has not yet evaluated the impact this will have on future statements.

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.

m. Subsequent Events

Management has evaluated for potential recognition and disclosure events subsequent to the date of the statement of financial position through October 27, 2016, the date the

financial statements were available to be issued. No events have occurred subsequent to the statement of financial position, date through our evaluation date, that would require adjustment to or disclosure in the financial statements.

**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 - Investments**

Accounting standards have established a fair value hierarchy giving the highest priority to quoted market prices in active markets and the lowest priority to unobservable data.

The fair value hierarchy is categorized into three levels based on the inputs as follows:

Level 1 – Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities that the School has the ability to access.

Level 2 – Valuations based on quoted prices in markets that are not active or for which all significant inputs are not observable, either directly or indirectly.

Level 3 – Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

Investment balances consist of the following:

| Description               | June 30, 2016      |                    |            |                  |
|---------------------------|--------------------|--------------------|------------|------------------|
|                           | Total              | Level 1            | Level 2    | Level 3          |
| Money markets             | \$43,347           | \$43,347           | \$0        | \$0              |
| Equity mutual funds       | 1,012,229          | 1,012,229          | 0          | 0                |
| Fixed income mutual funds | 1,292,777          | 1,292,777          |            |                  |
| Alternative investments   | <u>282,465</u>     | <u>0</u>           | <u>0</u>   | <u>282,465</u>   |
| Total                     | <u>\$2,630,818</u> | <u>\$2,348,353</u> | <u>\$0</u> | <u>\$282,465</u> |

| Description               | June 30, 2015      |                    |            |                  |
|---------------------------|--------------------|--------------------|------------|------------------|
|                           | Total              | Level 1            | Level 2    | Level 3          |
| Money markets             | \$110,451          | \$110,451          | \$0        | \$0              |
| Equity mutual funds       | 1,205,623          | 1,205,623          | 0          | 0                |
| Fixed income mutual funds | 1,359,759          | 1,359,759          |            |                  |
| Alternative investments   | <u>359,863</u>     | <u>0</u>           | <u>0</u>   | <u>359,863</u>   |
| Total                     | <u>\$3,035,696</u> | <u>\$2,675,833</u> | <u>\$0</u> | <u>\$359,863</u> |

Change to Level 3 investments are as follows:

|                      | <u>6/30/16</u>   | <u>6/30/15</u>   |
|----------------------|------------------|------------------|
| Beginning balance    | \$359,863        | \$410,555        |
| Investment purchases | 0                | 70,405           |
| Investment sales     | (28,650)         | (109,500)        |
| Realized loss        | (6,392)          | (48,492)         |
| Unrealized loss      | <u>(42,356)</u>  | <u>36,895</u>    |
| Ending balance       | <u>\$282,465</u> | <u>\$359,863</u> |

Level 1 securities are valued at the closing price reported on the active market that they are traded on. Level 2 securities are valued using observable market inputs for securities that are similar to those owned.

The valuation of the alternative investments as of June 30, 2016 is reported at fair value utilizing the net asset values provided by fund managers as a practical expedient. While the net asset values utilize significant unobservable inputs (level 3), management reviews and evaluates the values provided by the fund managers and agrees with the valuation methods and assumptions used in determining the fair value.

These methods produce a fair value calculation that may not be indicative of net realizable value or reflective of future values. The use of different methodologies or assumptions to determine the fair value or certain financial instruments could result in different fair value measurements.

**Note 5 - Advance Payable – New York City Department of Education**

|  | <u>6/30/16</u>     | <u>6/30/15</u>     |
|--|--------------------|--------------------|
| Beginning (advance payable)/grant receivable | (\$10,595)         | \$88,527           |
| Payments recovered/(collected)               | 10,595             | (14,643)           |
| Write-off                                    | 0                  | (73,885)           |
| Funding based on allowable FTE's             | 3,526,379          | 3,339,625          |
| Advances received                            | <u>(3,527,072)</u> | <u>(3,350,219)</u> |
| Ending advance payable                       | <u>(\$693)</u>     | <u>(\$10,595)</u>  |

**Note 6 - Employee Loans Receivable**

In November 2014, the School entered into a loan agreement with an employee for the tuition costs of a math leadership program. The loan balance may be forgiven by the School under certain conditions at various intervals through June 30, 2019.

**Note 7 - Fixed Assets**

Fixed assets consist of the following:

|                                | <u>6/30/16</u>   | <u>6/30/15</u>   |
|--------------------------------|------------------|------------------|
| Furniture and equipment        | \$527,385        | \$453,472        |
| Less: accumulated depreciation | <u>(413,839)</u> | <u>(381,675)</u> |
| Furniture and equipment, net   | <u>\$113,546</u> | <u>\$71,797</u>  |

**Note 8 - Temporarily Restricted Net Assets**

At June 30, 2015, temporarily restricted net assets consisted of unappropriated endowment earnings. (See Note 9.)

**Note 9 - Permanently Restricted Net Assets**

Included in permanently restricted net assets is a contribution from a related entity, Sheltering Arms Children's Service ("SACS"). Pursuant to its plan of dissolution and distribution of assets, which was approved by the Supreme Court of the State of New York, the School was required to establish a permanently restricted endowment.

*Interpretation of Relevant Law*

The School follows New York Prudent Management of Institutional Funds Act ("NYPMIFA"), which the board of directors has interpreted to require certain amounts to be retained permanently. Absent explicit donor stipulations to the contrary, the fair value of the original gift as of the gift date for all donor-restricted endowment funds will be preserved. However, under certain circumstances, the School has the right to appropriate for expenditure the fair value of the original gift in a manner consistent with the standard of prudence specifically prescribed by NYPMIFA.

As a result of this interpretation, the School classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

Absent any specific donor-stipulations, the remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the School.

*Spending Policies*

In accordance with NYPMIFA, the following factors are considered in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund;
- (2) The purposes of the School's mission and the donor-restricted endowment fund;
- (3) General economic conditions;
- (4) The possible effect of inflation and deflation;
- (5) The expected total return from income and the appreciation of investments;
- (6) Other resources available;
- (7) The investment policies;
- (8) Where appropriate and circumstances would otherwise warrant alternatives to expenditure of the endowment fund, giving due consideration to the effect that such alternatives may have.

During the years ended June 30, 2016 and 2015, the board made no appropriations from the endowment.

*Endowment Investment Policies*

Endowment assets were pooled with investments, until the School adopts an investment policy.

*Funds with Deficiencies*

From time-to-time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or NYPMIFA requires to be retained as a fund of perpetual duration. There were no such deficiencies at June 30, 2016 and 2015.

Changes in endowment net assets can be summarized as follows:

|   | <u>June 30, 2016</u> |                               |                               |                  |
|---|----------------------|-------------------------------|-------------------------------|------------------|
|   | <u>Unrestricted</u>  | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u>     |
| Endowment net assets, beginning of year | \$0                  | \$12,466                      | \$366,667                     | \$379,133        |
| Investment income                       | 0                    | 9,343                         | 0                             | 9,343            |
| Net realized/unrealized loss            | <u>0</u>             | <u>(21,809)</u>               | <u>0</u>                      | <u>(21,809)</u>  |
| Endowment net assets, end of year       | <u>\$0</u>           | <u>\$0</u>                    | <u>\$366,667</u>              | <u>\$366,667</u> |
|   | <u>June 30, 2015</u> |                               |                               |                  |
|   | <u>Unrestricted</u>  | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u>     |
| Endowment net assets, beginning of year | \$0                  | \$10,676                      | \$366,667                     | \$377,343        |
| Investment income                       | 0                    | 9,619                         | 0                             | 9,619            |
| Net realized/unrealized loss            | <u>0</u>             | <u>(7,829)</u>                | <u>0</u>                      | <u>(7,829)</u>   |
| Endowment net assets, end of year       | <u>\$0</u>           | <u>\$12,466</u>               | <u>\$366,667</u>              | <u>\$379,133</u> |

**Note 10 - Retirement Plan**

The School sponsors a 401(k) profit sharing plan. Employees at least 21 years old are eligible to participate. The School's contributions are determined annually, on a discretionary basis, which was 4% through the years-ended June 30, 2016 and 2015. The total amount of employer contributions was \$85,567 and \$75,786 for 2016 and 2015, respectively.

**Note 11 - Commitments and Contingencies**

On July 1, 2005, the School and NYCDOE signed a facility shared use agreement for the use of certain dedicated space within a New York City public school. The agreement has been renewed on a year-to-year basis. NYCDOE provides various operating services to the School including utilities, custodial and maintenance services, and charges a user fee of \$1.00 per annum. See Note 2g for contributed space disclosure.

Government contracts are subject to audit by the grantor. Management does not believe that any audits, if they were to occur, would result in material disallowed costs, and has not established any reserves. Any disallowed costs would be recorded in the period notified.

In the normal course of business, the School is involved in proceedings, lawsuits and other claims. These matters are subject to many uncertainties, and outcomes are not predictable with a high degree of assurance. Consequently, the ultimate aggregate amount of monetary liability or financial impact with respect to these matters as of June 30, 2016 cannot be ascertained. Management believes that the final outcome of these matters will not have a material impact on the financial statements of the School.

**Note 12 - Significant Concentrations**

Financial instruments, which potentially subject the School to concentration of credit risk, consist of cash, money market accounts and investment securities. The School places its temporary cash and money market accounts 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. The market value of investments is subject to fluctuation; however, management believes the investment policy is prudent for the long-term welfare of the School.

The School is dependent upon grants from NYCDOE to carry out its operations. Revenue from NYCDOE was 91% and 92% of the School's total public support and revenue in 2016 and 2015, respectively.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING  
STANDARDS***

To the Board of Trustees of  
Brooklyn 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 the Brooklyn Charter School (“the School”), which comprise the statement of financial position as of June 30, 2016, 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 27, 2016.

**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 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 disclose 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 27, 2016

**BROOKLYN CHARTER SCHOOL  
SCHEDULE OF FINDINGS AND RESPONSES  
JUNE 30, 2016**

Current Year:

None

Prior Year Follow-Up:

**15-001 – Audit Adjustments**

Follow-up during June 30, 2016: This matter was resolved.

**15-002 – Reconciliation of Payroll Tax Information to the Books**

Follow-up during June 30, 2016: This matter was resolved.