



IRA L. SCHALL, CPA  
DAVID C. ASHENFARB, CPA

## **BROOKLYN CHARTER SCHOOL**

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

**June 30, 2013**

# BROOKLYN CHARTER SCHOOL

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## **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 Brooklyn Charter School ("the School"), which comprise the statement of financial position as of June 30, 2013, 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.

### ***Auditor's 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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.

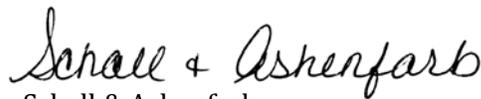
In our opinion, except for the effects of the departure of the accounting principle discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the Brooklyn Charter School as of June 30, 2013, and the changes in 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 2012 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 26, 2012. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2012 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 17, 2013 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 17, 2013

**BROOKLYN CHARTER SCHOOL**  
**STATEMENT OF FINANCIAL POSITION**  
**AT JUNE 30, 2013**  
(With comparative totals for June 30, 2012)

	<u>6/30/13</u>	<u>6/30/12</u>
<b>Assets</b>		
Cash and cash equivalents (Notes 2d and 2e)	\$3,284,861	\$2,664,682
Restricted cash (Note 3)	70,000	70,000
Government grants receivable	31,878	20,862
Contributions receivable	7,050	0
Accounts receivable - meal fees (net of allowance for doubtful accounts of \$28,127) (Note 2f)	0	1,781
Prepaid expenses	65,161	66,056
Investment in The Wedding Garden, Inc. (Note 1)	105,183	84,849
Furniture and equipment, net (Notes 2g and 4)	79,507	88,507
	<u>\$3,643,640</u>	<u>\$2,996,737</u>
<b>Total assets</b>		
<b>Liabilities and Net Assets</b>		
<b>Liabilities:</b>		
Accounts payable and accrued expenses	\$485,159	\$412,425
Advance payable - New York City (Note 5)	69,629	71,416
	<u>554,788</u>	<u>483,841</u>
<b>Total liabilities</b>		
<b>Net Assets: (Note 2a)</b>		
Unrestricted	2,722,185	2,512,896
Permanently restricted (Note 6)	366,667	0
	<u>3,088,852</u>	<u>2,512,896</u>
<b>Total net assets</b>		
<b>Total liabilities and net assets</b>	<u>\$3,643,640</u>	<u>\$2,996,737</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, 2013**  
(With comparative totals for the year ended June 30, 2012)

	Unrestricted	Permanently Restricted	6/30/13	6/30/12
<b>Unrestricted:</b>				
<b>Public Support and Revenue:</b>				
Public school district: (Notes 2c and 5)				
Revenue - resident student enrollment	\$3,345,674		\$3,345,674	3,320,468
Revenue - students with special education services			0	80,928
Subtotal public school district	3,345,674		3,345,674	3,401,396
Government grants (Note 2c)	182,069		182,069	115,959
Contributions (Notes 2b and 6)	279,646	\$366,667	646,313	51,000
In-kind contributions (Note 2h)	599,050		599,050	599,050
Interest income			0	4,694
Other income	4,830		4,830	2,384
Total public support and revenue	4,411,269	366,667	4,777,936	4,174,483
<b>Expenses:</b>				
Program services:				
Instructional support	3,308,804	0	3,308,804	3,202,183
Supporting services:				
Management and general	1,042,510		1,042,510	827,990
Fundraising			0	5,500
Total supporting services	1,042,510	0	1,042,510	833,490
Total expenses	4,351,314	0	4,351,314	4,035,673
Change in net assets from operations	59,955	366,667	426,622	138,810
Non operating activity:				
Increase of investment in The Wedding Garden, Inc. (Note 1)	149,334		149,334	75,792
Change in net assets	209,289	366,667	575,956	214,602
Net assets - beginning of year	2,512,896		2,512,896	2,298,294
Net assets - end of year	\$2,722,185	\$366,667	\$3,088,852	\$2,512,896

*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, 2013**  
(With comparative totals for the year ended June 30, 2012)

	<u>Program Services</u>	<u>Supporting Services</u>		
	Instructional Support	Management and General	Total Expenses 6/30/13	Total Expenses 6/30/12
Salaries	\$1,903,324	\$609,668	\$2,512,992	\$2,219,852
Substitute teachers	10,962		10,962	60,394
Payroll taxes and employee benefits	522,596	167,396	689,992	679,214
<b>Total personnel costs</b>	<b>2,436,882</b>	<b>777,064</b>	<b>3,213,946</b>	<b>2,959,460</b>
Occupancy (including in-kind of \$599,050, Note 2h)	456,746	146,304	603,050	599,050
Professional fees	7,338	36,047	43,385	42,349
Insurance	44,552	14,271	58,823	48,981
Maintenance and repairs	4,299	1,377	5,676	2,307
Supplies and materials	130,909	10,732	141,641	152,914
Staff development	113,029		113,029	74,157
Depreciation	28,347	9,080	37,427	42,479
Student services	50,887		50,887	53,762
Hospitality	15,783		15,783	17,939
Advertising		35,324	35,324	21,177
Miscellaneous	20,032	12,311	32,343	21,098
<b>Total other than personnel costs</b>	<b>871,922</b>	<b>265,446</b>	<b>1,137,368</b>	<b>1,076,213</b>
<b>Total expenses</b>	<b>\$3,308,804</b>	<b>\$1,042,510</b>	<b>\$4,351,314</b>	<b>\$4,035,673</b>

*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, 2013**  
(With comparative totals for the year ended June 30, 2012)

	6/30/13	6/30/12
<b>Cash Flows from Operating Activities:</b>		
Change in net assets	\$575,956	\$214,602
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation expense	37,427	42,479
Increase - investment in The Wedding Garden, Inc.	(149,334)	(75,792)
(Increase)/decrease in assets:		
Restricted cash	0	(70,000)
Grant receivable - New York City	0	84,295
Government grants receivable	(11,016)	51,264
Contributions receivable	(7,050)	0
Accounts receivable - meal fees	1,781	1,798
Prepaid expenses	895	(36,763)
Increase/(decrease) in liabilities:		
Accounts payable and accrued expenses	72,734	(9,138)
Advance payable - New York City	(1,787)	61,457
Total adjustments	(56,350)	49,600
Net cash provided by operating activities	519,606	264,202
<b>Cash Flows from Investing Activities:</b>		
Purchase of furniture and equipment	(28,427)	(29,932)
Net cash received from The Wedding Garden, Inc.	129,000	50,000
Net cash provided by investing activities	100,573	20,068
Net increase in cash and cash equivalents	620,179	284,270
Cash and cash equivalents - beginning of year	2,664,682	2,380,412
Cash and cash equivalents - end of year	\$3,284,861	\$2,664,682

Supplemental disclosures:

Interest paid - \$0

Taxes paid - \$0

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

**BROOKLYN CHARTER SCHOOL  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013**

**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 2012-2013 fiscal year with an average enrollment of approximately 248 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.

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. 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 which requires organizations 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 when received or paid. All significant receivables, payables and other liabilities have been reflected.

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. The School did not have any temporary restricted net assets at

June 30, 2013.

- *Permanently restricted* – accounts for activity restricted by donors that must remain intact in perpetuity. During the year ended June 30, 2013 the School received 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. Specific terms of this contribution require the School to establish a permanently restricted endowment.

b. Contributions

Contributions are recorded as revenue upon receipt of cash or unconditional pledges. They are considered available for unrestricted use, unless specifically restricted by the donor, in which case they are recorded as temporarily or permanently restricted, depending on the nature of the restriction.

All contributions are due within one year and have been recorded at their net realizable value. Conditional contributions received are recorded as liabilities and are recognized as income when the conditions have been substantially met.

c. Revenue Recognition

Program revenue is recognized based on the attendance level of enrolled students using rates established by the School's funding source 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.

d. 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.

e. Significant Concentrations

Financial instruments which potentially subject the School to concentration of credit risk consist of cash and money market accounts which have been placed with a financial institution that management deems to be creditworthy. At year-end and at various points throughout the year, material cash balances were in excess of insurance levels; however, the School has not experienced any losses from these accounts.

The School is dependent upon grants from NYCDOE to carry out its operations. For the year ended June 30, 2013, 80% of the School's total public support and revenue, excluding in-kind contributions, was realized from NYCDOE.

f. 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 it is unlikely they will collect based on historical experience and a review of activity subsequent to the balance sheet date.

g. Fixed Assets

Fixed assets are stated at cost or at the fair market 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.

h. 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 market value of this space as revenue and expense in the accompanying statements of activities and functional expenses.

i. Functional Allocation of Expenses

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

j. Use of Estimates

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

k. 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, 2012, from which the summarized information was derived.

l. 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, 2010 and later are subject to examination by applicable taxing authorities.

m. Subsequent Events

Management has evaluated for potential recognition and disclosure events subsequent to the date of the statement of financial position through October 17, 2013, 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 - Furniture and Equipment**

At June 30, 2013, fixed assets consist of the following:

Furniture and equipment	\$398,005
Less: accumulated depreciation	<u>(318,498)</u>
Furniture and equipment, net	<u>\$79,507</u>

**Note 5 - Advance Payable – New York City**

Receipts from government funding sources are recorded as advances payable and are recognized as income when earned. As of June 30, 2013, advance payable consists of the following:

Amount due to New York City at 6/30/12		(\$71,416)
Summary of fiscal year 6/30/13:		
Funding based on allowable FTE's	\$3,345,674	
Advances received	<u>(3,343,887)</u>	
Amount due from New York City for 6/30/13		<u>1,787</u>
Amount due to New York City at 6/30/13		<u>(\$69,629)</u>

**Note 6 - Permanently Restricted Net Assets**

As outlined in Note 2a, the School received a contribution from SACS of approximately \$594,000, of which \$366,667 is required to be maintained as 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 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 year ended June 30, 2013, the board made no appropriations from the endowment.

#### *Endowment Investment Policies*

Endowment assets were part of cash and cash equivalents at year-end, 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, 2013.

#### **Note 7 - Related Party Transaction**

The chairman of the board of directors of the School is the chairman of the board of directors of SACS. As noted earlier, SACS made a contribution totaling \$594,263 of which \$366,667 was permanently restricted (See Note 6).

#### **Note 8 - Retirement Plan**

Effective January 2008, the School established 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 June 2013. The total amount of employer contributions for 2013 totaled \$81,895.

**Note 9 - 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. The 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 2h 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.

**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 Brooklyn Charter School, which comprise the statement of financial position as of June 30, 2013, 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 17, 2013.

**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**

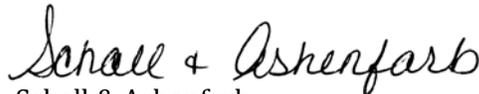
As part of obtaining reasonable assurance about whether the School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect 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 disclosed an instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as Finding 13-1.

## **Management's Response to Findings**

The School's response to the finding is reported in the schedule of findings and responses. The response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

## **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 17, 2013

**BROOKLYN CHARTER SCHOOL  
SCHEDULE OF FINDINGS AND RESPONSES  
JUNE 30, 2013**

Current Year:

**13-1 - Per Pupil Funding - Proof of Residency**

Criteria: The School is required to document proof of residency of students in attendance in the school.

Condition: Nine student files out of forty student files tested did not contain documentation of proof of residency.

Cause: There is no review of the student files by anyone other than the person who maintains the student files.

Effect or Potential Effect: The rate of the district used for billing of services may not be correct.

Recommendation: The manager of student services should review the student files to insure that the proof of residency is documented and billed to correct district.

Management Response: The manager of student services will begin to review the student files to insure proof of residency is documented and the proper district is billed. Management subsequently provided proof of residency to the auditor in order to verify that students were billed at the correct rate.

Prior Year Follow-Up:

None