



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

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

**June 30, 2015**

# BROOKLYN CHARTER SCHOOL

## Table of Contents

	<u>Page</u>
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 and Other Matters Based on an Audit of Financial Statements 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, 2015, 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.

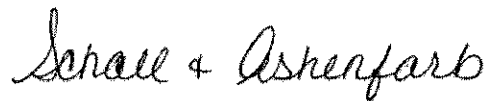
In our opinion, except for the effects of the departure of the accounting principle discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the Brooklyn Charter School as of June 30, 2015, and the changes in 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 2014 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 17, 2014. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2014 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 19, 2015 on our consideration of the School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control over financial reporting and compliance.



Schall & Ashenfarb  
Certified Public Accountants, LLC

October 19, 2015

**BROOKLYN CHARTER SCHOOL**  
**STATEMENT OF FINANCIAL POSITION**  
**AT JUNE 30, 2015**  
(With comparative totals at June 30, 2014)

	6/30/15	6/30/14
<b>Assets</b>		
Cash and cash equivalents	\$202,218	\$124,227
Restricted cash (Note 3)	70,000	70,000
Investments (Note 4)	3,035,696	3,021,363
Grant receivable - New York City (Note 5)	0	88,527
Government grants receivable	11,799	98,714
Contributions receivable	15,000	25,000
Prepaid expenses and other receivables	40,414	56,494
Employee loans receivable (Note 6)	43,886	0
Investment in The Wedding Garden, Inc.	81,267	84,791
Fixed assets, net (Note 7)	71,797	64,596
	\$3,572,077	\$3,633,712
Total assets		
<b>Liabilities and Net Assets</b>		
<b>Liabilities:</b>		
Accounts payable and accrued expenses	\$535,327	\$448,416
Advance payable - New York City (Note 5)	10,595	0
	545,922	448,416
Total liabilities		
<b>Net Assets:</b>		
Unrestricted	2,647,022	2,807,953
Temporarily restricted (Note 8)	12,466	10,676
Permanently restricted (Note 9)	366,667	366,667
	3,026,155	3,185,296
Total net assets		
Total liabilities and net assets	\$3,572,077	\$3,633,712

*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, 2015**  
(With comparative totals for the year ended June 30, 2014)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>6/30/15</u>	<u>6/30/14</u>
<b>Public Support and Revenue:</b>					
Public school district: (Note 5)					
Revenue - resident student enrollment	\$3,195,892			\$3,195,892	\$3,333,567
Revenue - students with special education services	143,733			143,733	112,242
Subtotal public school district	3,339,625	0	0	3,339,625	3,445,809
Government grants	121,645			121,645	126,532
Contributions	75,197			75,197	55,000
In-kind contributions	672,607			672,607	633,200
Interest and dividends	79,768	9,619		89,387	24,358
Other income	38,329			38,329	15,137
Total public support and revenue	4,327,171	9,619	0	4,336,790	4,300,036
<b>Expenses:</b>					
Program services:					
Instructional support	3,609,463			3,609,463	3,471,328
Supporting services:					
Management and general	1,020,267			1,020,267	892,004
Total expenses	4,629,730	0	0	4,629,730	4,363,332
Change in net assets from operations	(302,559)	9,619	0	(292,940)	(63,296)
Non operating activity:					
Increase of investment in The Wedding Garden, Inc. (Note 1)	196,476			196,476	85,608
Net realized and unrealized (losses)/gains on investments	(54,848)	(7,829)		(62,677)	74,132
Change in net assets	(160,931)	1,790	0	(159,141)	96,444
Net assets - beginning of year	2,807,953	10,676	366,667	3,185,296	3,088,852
Net assets - end of year	\$2,647,022	\$12,466	\$366,667	\$3,026,155	\$3,185,296

*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, 2015**  
(With comparative totals for the year ended June 30, 2014)

	Program Services	Supporting Services		
	Instructional Support	Management and General	Total Expenses 6/30/15	Total Expenses 6/30/14
Salaries	\$2,151,651	\$516,224	\$2,667,875	\$2,426,842
Payroll taxes and employee benefits	479,559	115,056	594,615	613,386
Retirement	61,122	14,664	75,786	87,275
<b>Total personnel costs</b>	<b>2,692,332</b>	<b>645,944</b>	<b>3,338,276</b>	<b>3,127,503</b>
Professional development	59,831		59,831	113,514
Legal		5,000	5,000	0
Professional fees	39,498	59,644	99,142	82,523
Student and staff recruitment		69,939	69,939	53,098
Supplies and materials	55,561		55,561	105,873
Office expense	28,410	6,816	35,226	29,121
Student services	101,645		101,645	65,200
Insurance	43,915	10,536	54,451	63,549
Technology	6,329	1,519	7,848	12,310
Repairs and maintenance	10,831	2,599	13,430	17,021
Occupancy and facility costs - in-kind	542,460	130,147	672,607	633,200
Depreciation	23,415	5,618	29,033	34,110
Bad debt		73,885	73,885	0
Other	5,236	8,620	13,856	26,310
<b>Total other than personnel costs</b>	<b>917,131</b>	<b>374,323</b>	<b>1,291,454</b>	<b>1,235,829</b>
<b>Total expenses</b>	<b>\$3,609,463</b>	<b>\$1,020,267</b>	<b>\$4,629,730</b>	<b>\$4,363,332</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, 2015**

(With comparative totals for the year ended June 30, 2014)

	<u>6/30/15</u>	<u>6/30/14</u>
<b>Cash Flows from Operating Activities:</b>		
Change in net assets	(\$159,141)	\$96,444
Adjustments to reconcile change in net assets to net cash used for operating activities:		
Realized and unrealized losses/(gains) on investments	62,677	(74,132)
Depreciation expense	29,033	34,110
Increase - investment in The Wedding Garden, Inc.	(196,476)	(85,608)
Changes in assets and liabilities:		
Grant receivable - New York City	88,527	(88,527)
Government grants receivable	86,915	(66,836)
Contributions receivable	10,000	(17,950)
Prepaid expenses and other receivables	16,080	8,667
Employee loans receivable	(43,886)	0
Accounts payable and accrued expenses	86,911	(36,743)
Advance payable - New York City	10,595	(69,629)
Total adjustments	<u>150,376</u>	<u>(396,648)</u>
Net cash used for operating activities	<u>(8,765)</u>	<u>(300,204)</u>
<b>Cash Flows from Investing Activities:</b>		
Purchase of furniture and equipment	(36,234)	(19,199)
Purchase of investments	(498,104)	(3,288,193)
Proceeds from sales of investments	421,094	340,962
Net cash received from The Wedding Garden, Inc.	200,000	106,000
Net cash provided by/(used for) investing activities	<u>86,756</u>	<u>(2,860,430)</u>
Net increase/(decrease) in cash and cash equivalents	77,991	(3,160,634)
Cash and cash equivalents - beginning of year	<u>124,227</u>	<u>3,284,861</u>
Cash and cash equivalents - end of year	<u>\$202,218</u>	<u>\$124,227</u>
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, 2015**

**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 2014-2015 fiscal year with an average enrollment of approximately 232 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. See Note 11.

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 when 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 the 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, 2014, 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, 2012 and later are subject to examination by applicable taxing authorities.
- l. Subsequent Events  
Management has evaluated for potential recognition and disclosure events subsequent to the date of the statement of financial position through October 19, 2015, 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, 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>

Description	June 30, 2014			
	Total	Level 1	Level 2	Level 3
Money markets	\$54,469	\$54,469	\$0	\$0
Equity mutual funds	1,174,216	1,174,216	0	0
Fixed income mutual funds	1,382,123	1,382,123		
Alternative investments	<u>410,555</u>	<u>0</u>	<u>0</u>	<u>410,555</u>
Total	<u>\$3,021,363</u>	<u>\$2,610,808</u>	<u>\$0</u>	<u>\$410,555</u>

Change to Level 3 investments are as follows:

	6/30/15	6/30/14
Beginning balance	\$410,555	\$0
Investment purchases	70,405	446,584
Investment sales	(109,500)	(38,884)
Realized loss	(48,492)	(37)
Unrealized gain	<u>36,895</u>	<u>2,892</u>
Ending balance	<u>\$359,863</u>	<u>\$410,555</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, 2015 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 - Grant Receivable/Advance Payable - New York City Department of Education**

	<u>6/30/15</u>	<u>6/30/14</u>
Beginning grant receivable/(advance payable)	\$88,527	(\$69,629)
Payments (collected)/recovered	(14,643)	65,464
Write-off	(73,885)	0
Funding based on allowable FTE's	3,339,625	3,445,809
Advances received	<u>(3,350,219)</u>	<u>(3,353,117)</u>
Ending (advance payable)/grant receivable	<u>(\$10,595)</u>	<u>\$88,527</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. Payments of \$30,290 that were made prior to the date of the loan and were expensed in prior years have been classified as other income.

**Note 7 - Fixed Assets**

At year-end, fixed assets consisted of the following:

	<u>6/30/15</u>	<u>6/30/14</u>
Furniture and equipment	\$453,438	\$417,204
Less: accumulated depreciation	<u>(381,641)</u>	<u>(352,608)</u>
Furniture and equipment, net	<u>\$71,797</u>	<u>\$64,596</u>

**Note 8 - Temporarily Restricted Net Assets**

At year-end, 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 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, 2015 and 2014, 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, 2015 and 2014.

Changes in endowment net assets can be summarized as follows:

	June 30, 2015			
	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>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 losses	<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>

	June 30, 2014			
	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$0	\$0	\$366,667	\$366,667
Investment income	0	2,681	0	2,681
Net realized/unrealized gains	<u>0</u>	<u>7,995</u>	<u>0</u>	<u>7,995</u>
Endowment net assets, end of year	<u>\$0</u>	<u>\$10,676</u>	<u>\$366,667</u>	<u>\$377,343</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 2015 and 2014. The total amount of employer contributions for 2015 and 2014 totaled \$75,786 and \$87,275, 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, 2015 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. The School's total public support and revenue of 92% and 94%, excluding in-kind contributions, was realized from NYCDOE for the years ended June 30, 2015 and 2014, respectively.

**Note 13 - Subsequent Events/School Charter Renewal**

The School's current charter with NYCDOE runs through June 30, 2016. NYCDOE placed certain academic/charter goals that would be evaluated in order to have the charter renewed beyond June 30, 2016.

Subsequent to year-end, NYCDOE released the test scores for the School. NYCDOE reported to the School that for the 2014-2015 school year, the School did not meet any of the benchmarks for conditions of its renewal. The School's academic/charter performance during the 2015-2016 school year will also be evaluated by NYCDOE in determining its charter renewal. Non-renewal of the School's charter would have adverse effects on the ability of the School to sustain operations beyond June 30, 2016.





**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, 2015, 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 19, 2015.

**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. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses as findings 15-001 and 15-002 that we consider significant deficiencies.

## **Compliance and Other Matters**

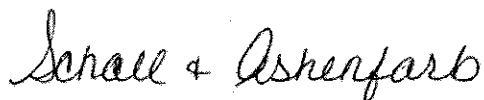
As part of obtaining reasonable assurance about whether the School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect 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*.

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

The School's responses to the findings are 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 19, 2015

**BROOKLYN CHARTER SCHOOL  
SCHEDULE OF FINDINGS AND RESPONSES  
JUNE 30, 2015**

Current Year:

**15-001 - Audit Adjustments**

Criteria: The School is required to make all adjustments for the books to be in accordance with U.S. generally accepted accounting principles (GAAP).

Condition: Several adjustments were required, the magnitude of which indicates the books were not in accordance with GAAP.

Cause: Lack of formal procedures for closing out books.

Effect: Audit adjustments were required for preparation of GAAP statements.

Recommendation: The finance director should make all GAAP based adjustments prior to the commencement of the audit.

Management Response: See management corrective action plan attached.

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

Criteria: Payroll taxes get filed quarterly. Nobody at the School reconciled the amount reported to the amounts recorded in the books.

Condition: Salary expense per the books was higher than the amount reported on the payroll tax returns by approximately \$32,000.

Cause: Lack of formal procedures for reconciling payroll between books and taxes filed.

Effect: Amounts reported on books did not agree to amount reported to tax authorities.

Recommendation: The finance director should perform quarterly reconciliations of payroll taxes filed to books and investigate any differences and make any adjustments where appropriate.

Management Response: See management corrective action plan attached.

Prior Year Follow-Up:

**14-1 - Per Pupil Billing**

Follow-up during June 30, 2015: This matter was resolved.



**Omnigbade Escayg**  
*Head of School/Director*

**Mary Kate Boesch**  
*Assistant Principal*

**Karma Suttles**  
*Assistant Principal*

**FINANCIAL STATEMENTS AND  
SCHEDULE OF FINDINGS AND RESPONSES  
TOGETHER WITH INDEPENDENT AUDITORS' REPORT  
JUNE 30, 2015**

**APPENDIX A - CORRECTIVE ACTION PLAN**

**15-001 - Audit Adjustments**

Management has instituted new controls so that the business manager will make the necessary adjustments to the books prior to the start of the audit.

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

Management has switched its payroll processing back to the payroll service company used in prior years. In addition, management has instituted new controls. The business manager will review the payroll with the operations manager to ensure that payroll has been properly reported to the payroll service company. The business manager will perform quarterly reconciliations of the payroll taxes filed to the books and investigate any differences and make any adjustments where appropriate.



## **Communication with Those Charged with Governance**

To Board of Trustees of  
Brooklyn Charter School

We have audited the financial statements of Brooklyn Charter School ("the School") for the year ended June 30, 2015, and have issued our report thereon dated October 19, 2015. Professional standards require that we provide you with the following information related to our audit.

### Our Responsibility under Generally Accepted Auditing Standards

As stated in our engagement letter dated May 18, 2015, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with generally accepted accounting principles. Because of the concept of reasonable assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, fraud, or other illegal acts may exist and not be detected by us. Our audit of the financial statements does not relieve you or management of your responsibilities.

### Planned Scope of Audit

We performed our audit according to the plan previously communicated to you in our engagement letter and subsequent pre-audit communication meeting.

### Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the School are described in Note 2 to the financial statements. In fiscal year 2008, the School became the sole member of the Wedding Garden, Inc. As such, accounting principles generally accepted in the United States of America (GAAP) require the consolidation of this other entity and an elimination of intercompany transactions. Because you informed us that the NYS Education Department did not want to review consolidated financial statements from the School, this transaction was accounted for under the equity method. A qualification to our report was required to disclose the GAAP departure.

There were no new accounting policies adopted during the year under audit nor were there any changes to the application of existing policies during the year. Except for the matter discussed above regarding the Wedding Garden we noted no other transactions entered into by the School during the year that was unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

There is one new matter that we would like to bring to your attention. A loan was established for tuition payments for a teacher that had been expensed in prior years in the amount of \$30,290 plus payments in the current year of \$13,596. Although these loans may be forgiven in future periods based on possible contingent events, a loan receivable was recorded as of June 30, 2015. As amounts are forgiven, the loan receivable will be reduced accordingly. Included in current year income (as other income), were the payments of \$30,290 that related to the prior year.

In addition, subsequent to June 30, 2015, the School has applied for a charter renewal. The last renewal extended the charter to June 30, 2016. The notes to the financial statements reflect subsequent to year end, the NYCDOE reported that the School did not meet any of its benchmarks or conditions for renewal based on the test scores for the 2014-2015 school year. While the School believes its charter will be renewed, the School will be notified sometime in January - February 2016 on this decision. **The possibility exists that the School's charter may not be renewed which means that the School would close at June 30, 2016.**

#### Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates used in preparing the financial statements was for in-kind rent, the allocation of expenses into program, management and fundraising categories, fair value of investments and obtaining a value for the Wedding Garden under the equity method.

We evaluated the key factors and assumptions used to develop the above estimate in determining that it was reasonable in relation to the financial statements taken as a whole. The disclosures in the financial statements are neutral, consistent and clear.

#### Significant Audit Adjustments

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. See exhibit C for a listing of all adjustments agreed to by management and include in the financial statements.

For purposes of this letter, professional standards define a significant audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures.

There were no un-booked adjustments.

#### Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

#### Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

#### Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management prior to retention as the auditors. There were no specific matters of this nature discussed prior to our retention.

#### Difficulties Encountered in Performing the Audit

There were no significant difficulties encountered in performing the audit.

#### Management Representations

We have requested certain representations from management that are included in the management representation letter.

#### Industry updates

There are several new regulations that impact the nonprofit sector that we want you to be aware of. Some relate to changes that should be implemented as soon as possible and others that are still in the draft stage. To summarize:

#### **Uniform Guidance on Federal Awards is in effect for 2015**

In late December 2013, the U.S. Office of Management and Budget (OMB) took a major step to issuing its long awaited final grant reform rules in a document entitled Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards. Final regulations were posted in the Federal Register on December 26, 2013. Many changes were made to cost principles and **they are effective for new federal awards issued in 2015**. The changes to the audit requirements are effective for those entities with a year end of December 31, 2015 and later. It is possible that nonprofit organizations can have grants that follow the older rules and the newer rules, in the same fiscal year. That makes understanding the new rules that much more important. The following describes some of the key areas of change:

#### *Streamlining of Related Circulars and Guidance*

The eight existing OMB Circulars have been combined into one document including Circular A-133 and the various Cost Principles. Additionally, the cost principles have been incorporated into a single document with limited variations by type of entity. This new document supersedes the following OMB Circulars:

- A-21, Cost Principles for Educational Institutions
- A-87, Cost Principles for State, Local, and Indian Tribal Governments
- A-89, Federal Domestic Assistance Program Information
- A-102, Awards and Cooperative Agreements with State and Local Governments

- A-110, Uniform Administrative Requirements for Awards and Other Agreements with Institutions of Higher Education, Hospitals, and Other Nonprofit Organizations
- A-122, Cost Principles for Non-Profit Organizations
- A-133, Audits of States, Local Governments and Non-Profit Organizations
- It will also supersede those sections of A-50, Audit Follow-Up, related to Single Audits

#### *Procurement*

We are finding this to be the most difficult and time consuming new process to implement. That is because the guidance on procurement is more consistent with the older regulations that applied to states and local governments rather than nonprofit organizations. Therefore, major changes have been made to how nonprofits procure goods and services:

There are several new methods that must be followed:

- Micro purchases which applies to goods and services less than \$3,000 and does not require competitive quotes but does require attempts at equitable distribution to avoid all purchases from the same vendor.
- Small purchases which apply to goods and services below the Simplified Acquisition Threshold (\$150,000) and requires multiple rate quotes from qualified sources.
- Sealed bids when services are above the \$150,000 level and which are most applicable for construction.
- Competitive proposals to be used when sealed bids are not practical.

Documentation which includes the detail of the purchase transaction must be maintained that includes support of the procurement method used and the basis of the award and price.

#### *Indirect Costs*

A *de minimus* 10% rate is allowed for those organizations that do not have a negotiated rate with the federal government or cognizant agency. This applies to sub-recipients as well.

#### *Time and Effort Reporting*

A number of changes are included in the documents which provides for more flexibility for entities in how they document time and effort. The key is having a strong system of internal control to capture how employees perform tasks related to grants on an after-the fact basis. Budgets are still not permitted, although guidance has loosened to allow interim costs to be charged based on budgets if it is representative of best estimates and can be adjusted to reflect actual results periodically. Current systems that meet the old requirements of OMB Circular A-122 (timesheets) will still be permitted.

Auditors will make note of the following changes to the single audit:

#### *Single Audit Threshold for Audit Increased to \$750,000*

Entities that expend less than \$750,000 in federal awards would not be required to undergo a single audit. This would represent an increase from the current \$500,000 threshold for single audits which was established in 2003. Any entity that falls below the \$750,000 threshold must make records available for review or audit by appropriate officials of the Federal agency, pass-through entity, and the Government Accountability Office.



**For more information on this, please view an archived version of a webinar that we did on this topic that is saved on our website.**

### **FASB issues exposure draft**

The Financial Accounting Standards Board (FASB) has issued an exposure draft that is being touted as a once in a generation project. This statement, once passed, will have a major impact on the display of financial statements for all nonprofit organizations. As with all new FASB statements, this is still in the public comment period and there will be changes to the final regulation, however the following summary represents some of the objectives of the new regulations:

- The streamlining of net assets classes to two; net assets that contain donor restrictions and net assets that do not contain donor restrictions. This will have a major impact on organizations with endowments as the financial statements will no longer have a permanently restricted class of net assets. There will also be a change to how underwater endowments will be treated.
- Making financial statements more comparable between different entities, a defined measure of operations will become standard.
- Disclosures on liquidity will become more prominent, which will include allowing management to self define what they consider to be assets available for expenditure.
- The direct method of reporting cash flows will be required to enhance the understanding and usability of this statement. This should help the reader by having the statement of cash flows be more intuitive and provide more transparency on liquidity.
- Creating a 4 step process to help determine when revenue should be recognized that is based on the deliverable of goods and services. This would apply to membership, tuition, program fees, but would exclude contributions.

We will keep you notified of when these new changes become finalized.

### **Internal Controls - COSO Updates Integrated Framework**

This new framework, which is recognized as the leading guidance for designing, implementing, and conducting a system of internal control, was updated to ensure its continued relevance. Nonprofits should begin utilizing the new framework in evaluating the effectiveness of its internal controls because this is an area their auditors will be focusing on.

### **Board Governance**

- Overhead Myth - The three major watchdog groups have put out a call to action for donors to focus more on what a charity has done to meet its mission as opposed to how much money it spends on programmatic activity. We are seeing a shift of donations that are tied to achievement of milestones as opposed to funding general, non-specific areas.
- Nonprofit Revitalization Act - Became effective in 2014 and put what had previously been considered best practice into the nonprofit corporate law. The primary areas impact conflicts of interest (having policies that outline how a charity should review and approve transactions with board members, officers, their families and businesses and making sure that these transactions are in the best interest of the charity), monitoring of the independent audit,

including establishing an audit committee of members of the board of directors (or having the full board of directors itself) that meet with the independent auditors regularly, establish whistleblower policies to provide employees with a method to report to the board any suspected fraud within the organization, and other administrative matters.

Independence Issues

Schall & Ashenfarb, CPA's, LLC is not aware of any relationships that our firm, or any employees thereof, has with the School or any of its board members that, in our professional judgment may impair our independence.

This information is intended solely for the use of the Board of Trustees of the Brooklyn Charter School.



Schall & Ashenfarb  
Certified Public Accountants, LLC

October 19, 2015



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

May 18, 2015

Mr. Michael Catlyn, Member of Board of Directors  
And To Those Charged With Governance  
The Brooklyn Charter School  
545 Willoughby Avenue  
Brooklyn, NY 11206

Dear Mr. Catlyn:

We are pleased to confirm our understanding of the services we are to provide for The Brooklyn Charter School for the year ended June 30, 2015.

We will audit the statement of financial position of The Brooklyn Charter School as of June 30, 2015, and the related statements of activities, functional expenses, and cash flows for the year then ended and the notes to the financial statements.

#### **Audit Objectives**

The objective of our audit is the expression of an opinion about whether your financial statements are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit will be conducted in accordance with U.S. generally accepted auditing standards and the standards for financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and will include tests of your accounting records and other procedures we consider necessary to enable us to express such an opinion. If our opinion on the financial statements is other than unqualified, we will discuss the reasons with management in advance. If, for any reason, we are unable to complete the audit or are unable to form or have not formed an opinion, we may decline to express an opinion or to issue a report as a result of this engagement.

We will also provide a report (which does not include an opinion) on internal control related to the financial statements and compliance with the provisions of applicable laws, regulations, contracts, agreements, and grants, noncompliance with which could have a material effect on the financial statements as required by *Government Auditing Standards*. The report on internal control and compliance will include a statement that the report is intended solely for the information and use of the audit committee, management, and specific legislative or regulatory bodies and is not intended to be and should not be used by anyone other than these specified parties. If during our audit we become aware that The Brooklyn Charter School is subject to an audit requirement that is not encompassed in the terms of this engagement, we will communicate to management and those charged with governance that an audit in accordance with U.S. generally accepted auditing

307 Fifth Avenue, 15th Floor  
New York, New York 10016  
Tel: (212) 268-2800 Fax: (212) 268-2805  
[www.schallandashenfARB.com](http://www.schallandashenfARB.com)

## EXHIBIT 1

standards and the standards for financial audits contained in *Government Auditing Standards* may not satisfy the relevant legal, regulatory, or contractual requirements.

### Management Responsibilities

You are responsible for making all management decisions and performing all management functions; for designating an individual with suitable skill, knowledge, or experience to oversee the financial statement preparation and tax services and any other nonattest services we provide; and for evaluating the adequacy and results of those services and accepting responsibility for them.

**Management is responsible** for establishing and maintaining internal controls, including monitoring ongoing activities; for the selection and application of accounting principles; and for the fair presentation in the financial statements of financial position, changes in net assets, and cash flows in conformity with U. S. generally accepted accounting principles. **Management is responsible** for the basic financial statements and all accompanying information as well as all representations contained therein. **A partner will present the results of our audit to your audit committee or your board of directors (in person or by teleconference).**

**Management is responsible** for management decisions and functions. In accordance with *Government Auditing Standards*, you will be required to review and approve those financial statements prior to their issuance and have a responsibility to be in a position in fact and appearance to make an informed judgment on those financial statements. Further, you are required to designate a qualified management-level individual to be responsible and accountable for overseeing our services.

**Management is responsible** for making all financial records and related information available to us and for the accuracy and completeness of that information. **Management is also responsible** for providing us with (1) access to all information of which you are aware that is relevant to the preparation of the financial statements, (2) additional information that we may request for the purpose of the audit, and (3) unrestricted access to persons within the organization from whom we determine it necessary to obtain audit evidence. **Management's responsibilities include** adjusting the financial statements to correct material misstatements and for confirming to us in the management representation letter that the effects of any uncorrected misstatements aggregated by us during the current engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

If you use a financial consultant to review your books, prepare journal entries or prepare financial statements we will request certain representation from them as well. **Because of the importance of management's representations to an effective audit, failure of management or their financial consultants to provide representations to us in the form of a representation letter will cause our auditors opinion to be a "disclaimer" for a scope limitation.**

**You are responsible** for the design and implementation of programs and controls to prevent and detect fraud, and for informing us about all known or suspected fraud affecting the organization involving (1) management, (2) employees who have significant roles in internal control, and (3) others where the fraud or illegal acts could have a material effect on the financial statements. **Your responsibilities include** informing us of your knowledge of any allegations of fraud or suspected fraud affecting the Organization received in communications from employees, former employees, grantors, regulators, or others. In addition, **you are responsible** for identifying and ensuring that the Organization complies with applicable laws, regulations, contracts, agreements, and grants and

## EXHIBIT 1

for taking timely and appropriate steps to remedy any fraud, illegal acts, violations of contracts or grant agreements, or abuse that we may report.

**Management is responsible** for establishment and maintenance for tracking the status of audit findings and recommendations. **Management is also responsible** for identifying for us previous audits or other engagements or studies related to the objectives discussed in the Audit Objectives section of this letter. This responsibility includes relaying to us corrective actions taken to address significant findings and recommendations resulting from those audits or other engagements or studies. **The Organization is also responsible for providing** management's views on our current findings, conclusions, and recommendations, as well as your planned corrective actions, and the timing and format related thereto.

### **Audit Procedures—General**

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit will involve judgment about the number of transactions to be examined and the areas to be tested. An audit also includes evaluating the appropriateness of accounting policies used and the presentation of the financial statements. We will plan and perform the audit to obtain reasonable rather than absolute assurance about whether the financial statements are free of material misstatement, whether from (1) errors, (2) fraudulent financial reporting, (3) misappropriation of assets, or (4) violations of laws or governmental regulations that are attributable to The Brooklyn Charter School or to acts by management or employees acting on behalf of The Brooklyn Charter School. Because the determination of abuse is subjective, *Government Auditing Standards* do not expect auditors to provide reasonable assurance of detecting abuse.

Because an audit is designed to provide reasonable, but not absolute, assurance and because **we will not perform a detailed examination of all transactions**, there is a risk that material misstatements may exist and not be detected by us, even though the audit is properly planned and performed in accordance with U.S. generally accepted auditing standards and *Government Auditing Standards*. In addition, an audit is not designed to detect immaterial misstatements or violations of laws or governmental regulations that do not have a direct and material effect on the financial statements. However, we will inform you of any material errors and any fraudulent financial reporting or misappropriation of assets that come to our attention. We will also inform you of any violations of laws or governmental regulations that come to our attention, unless clearly inconsequential, and of any material abuse that comes to our attention. Our responsibility as auditors' is limited to the period covered by our audit and does not extend to any later periods for which we are not engaged as auditors.

Our procedures will include tests of documentary evidence supporting the transactions recorded in the accounts, tests of the physical existence of inventories, and direct confirmation of receivables and certain assets and liabilities by correspondence with selected funding sources, creditors, and financial institutions. We will also request written representations from The Brooklyn Charter School's attorneys as part of the engagement, and they may bill The Brooklyn Charter School for responding to this inquiry. At the conclusion of our audit, we will require certain written representations from management about the financial statements and related matters.

## EXHIBIT 1

### **Audit Procedures—Internal Control**

Our audit will include obtaining an understanding of the entity and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing, and extent of further audit procedures. Tests of controls may be performed to test the effectiveness of certain controls that we consider relevant to preventing and detecting errors and fraud that are material to the financial statements and to preventing and detecting misstatements resulting from illegal acts and other noncompliance matters that have a direct and material effect on the financial statements. Our tests, if performed, will be less in scope than would be necessary to render an opinion on internal control and, accordingly, no opinion will be expressed in our report on internal control issued pursuant to *Government Auditing Standards*.

An audit is not designed to provide assurance on internal control or to identify significant deficiencies or material weaknesses. However, during the audit, we will communicate to management and those charged with governance internal control related matters that are required to be communicated under professional standards and *Government Auditing Standards*.

### **Audit Procedures—Compliance**

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we will perform tests of The Brooklyn Charter School's compliance with the provisions of applicable laws, regulations, contracts, agreements, and grants. However, the objective of our audit will not be to provide an opinion on overall compliance and we will not express such an opinion in our report on compliance issued pursuant to *Government Auditing Standards*.

### **Other Services**

We are always available to meet with you and other executives at various times throughout the year to discuss current business, operational, accounting, and auditing matters affecting your Organization. Whenever you feel such meetings are desirable, please let us know. We are also prepared to provide services to assist you in any of these areas. We will also be pleased, at your request, to attend your board of directors' meetings.

In addition to the audit services described above, you have requested that we provide the following non-attest services:

We will assist the Organization in preparing the financial statements and related footnote disclosures based on information in the trial balance and other information that comes to our attention during the course of the our engagement. It is critical that you have an understanding and agree with all information in the financial statements, since they are the entity's, and not the auditors'. We agree to review the financial statements with management in sufficient detail to enable you to gain this required understanding and agreement.

We will prepare the tax returns as outlined separately below.

### **Audit Administration and Other**

We understand that your employees will prepare all cash, accounts receivable, and other confirmations we request and will locate any documents selected by us for testing. Certain financial

## EXHIBIT 1

institutions may charge us for this and the cost will be passed on to you. We will send a template in Word format for use with confirmation requests.

David Ashenfarb is the engagement partner and is responsible for supervising the engagement and signing the reports or authorizing another individual to sign it. Please contact us to discuss a date that we can begin the audit and outline a plan for delivery of draft and final documents to you. Our audit engagement ends on delivery of financial reports; however, we are still available for routine conversations without charge until either party has officially terminated the relationship. Any follow-up services that might be required will be considered a new engagement.

We will provide copies of our reports to you; however, management is responsible for distribution of the reports and the financial statements. Unless restricted by law or regulation, or containing privileged and confidential information, copies of our reports are to be made available for public inspection.

The audit documentation for this engagement is the property of Schall & Ashenfarb, CPAs, LLC and constitutes confidential information. However, pursuant to authority given by law or regulation, we may be requested to make certain audit documentation available to your funding source or its designee, a federal agency providing direct or indirect funding, or the U.S. Government Accountability Office for purposes of a quality review of the audit, to resolve audit findings, or to carry out oversight responsibilities. We will notify you of any such request. If requested, access to such audit documentation will be provided under the supervision of Schall & Ashenfarb's personnel. Furthermore, upon request, we may provide copies of selected audit documentation to the Government Regulator. The Regulator may intend, or decide, to distribute the copies or information contained therein to others, including other governmental agencies.

The audit documentation for this engagement will be retained for a minimum of five years after the report release date or for any additional period requested by the Government Regulator. If we are aware that a federal awarding agency or auditee is contesting an audit finding, we will contact the party(ies) contesting the audit finding for guidance prior to destroying the audit documentation.

### **E-mail Communication**

In connection with this engagement, we may communicate with you or others via e-mail. As e-mails can be intercepted, disclosed, used, and/or otherwise communicated by an unintended third party, or may not be delivered to each of the parties to whom they are directed, we cannot ensure that e-mails from us will be properly delivered and read only by the addressee. Therefore, we disclaim and waive any liability for interception or unintentional disclosure of e-mail transmissions, or for the unauthorized use or failed delivery of e-mails transmitted by us in connection with the performance of this engagement. In that regard, you agree that we shall have no liability for any loss or damage arising from the use of e-mail, including any punitive, consequential, incidental, direct, indirect, or special damages, such as loss of revenues or anticipated profits, or disclosure of confidential information.

### **Posting of Audit Report and Financial Statements on Your Web Site**

You agree that, if you plan to post an electronic version of the financial statements and audit report on your Web site, you will ensure that there are no differences in content between the electronic version of the financial statements and audit report on your Web site and the signed version of the financial statements and audit reports provided to management by us. You also agree to indemnify

## EXHIBIT 1

us from any and all claims that may arise from any differences between the electronic and signed copies.

### **Taxes**

As part of our engagement, we will also prepare the federal information return (Form 990). In order to prepare complete and accurate returns, we will require you to provide certain information about board governance policies, which may also include, but not be limited to, providing salary amounts for employees greater than \$100,000, contractors for professional services in excess of the same amount, names, addresses and dollar amounts of large contributors in excess of certain calculated amounts and other matters that are not generally covered during the audit. If the information is not provided to us timely, you will not hold us responsible for any penalties incurred for incomplete information.

We will send you an authorization form so that we can file your federal taxes electronically. If we do not receive the form back, or you prefer not to file electronically, we will send you hard copies to file. We will also send you electronic copies for your records unless we receive a specific request for hard copies.

### **Fee**

Our fee will remain at \$19,500. At the completion of the audit, we will provide electronic versions of the audited financial statements, management letter (if applicable) and communications with those charged with governance and 10 copies of the final report without charge. Any additional copies will cost \$5 per report. If applicable, we will charge you other out of pocket costs such as postage for confirmations, fees incurred for certain electronic bank confirmations and setting up conference calls through our phone center, etc. Our fee will be billed monthly and is payable upon receipt. Invoices that are unpaid 30 days past the invoice date are deemed delinquent and we reserve the right to charge interest at 1% per month (not to exceed the maximum amount permitted by law.) In the event any collection action is required to collect unpaid balances due to us, you agree to reimburse us for all our costs of collection, including without limitation attorney's fees.

A payment is required upon the signing of this letter in the amount of \$4,500. If we terminate our services for nonpayment, our engagement will be deemed to have been completed upon written notification of termination, even if we have not completed our report. You will be obligated to compensate us for all time expended and to reimburse us for all out-of-pocket expenditures through the date of termination.

If the School receives CSP funding, the grantor may require a separate "agreed upon procedures report". The terms of this engagement do not include additional services required to prepare a separate agreed upon procedures report. If such services are required, a separate agreement outlining the scope of work and related fees will be made at that time.

### **Independence**

Professional and certain regulatory standards require us to be independent, in both fact and appearance, with respect to your Organization in the performance of our services. Any discussions that you have with personnel of our Firm regarding employment could pose a threat to our independence. Therefore, we request that you inform us prior to any such discussions so that we can implement appropriate safeguards to maintain our independence.



## EXHIBIT 1

In order for us to remain independent, professional standards require us to maintain certain respective roles and relationships with you with respect to the non-attest services described above. Prior to performing such services in conjunction with our audit, management must acknowledge its acceptance of certain responsibilities.

We will not perform management functions or make management decisions on behalf of your Organization. However, we will provide advice and recommendations to assist management of the Organization in performing its functions and fulfilling its responsibilities.

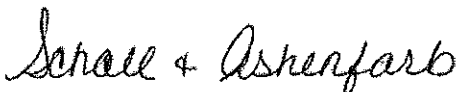
We, in our professional judgment, reserve the right to refuse to perform any procedure or take any action that could be construed as making management decisions or performing management functions. The Organization must make all decisions with regard to our recommendations. By signing this Agreement, you acknowledge your acceptance of these responsibilities.

*Government Auditing Standards* require that we provide you with a copy of our most recent external peer review report and any letter of comment, and any subsequent peer review reports and letters of comment received during the period of the contract. Our 2014 peer review report accompanies this letter.

We have attached a brief questionnaire that will help us plan the timing of the engagement to ensure you receive documents in your desired time frame. Please take a moment to fill that out.

We appreciate the opportunity to be of service to The Brooklyn Charter School and believe this letter accurately summarizes the significant terms of our engagement. If you have any questions, please let us know. If you agree with the terms of our engagement as described in this letter, please sign the enclosed copy and return it to us along with the questionnaire referred to above.

Very truly yours,



Schall & Ashenfarb  
Certified Public Accountants, LLC

EXHIBIT 1

RESPONSE:

This letter correctly sets forth the understanding of The Brooklyn Charter School for the year ended June 30, 2015.

Michael A. Ruffo

Officer signature

VICE CHAIR BOT

Title

6/10/2015

Date

# Lilling & Company LLP

Certified Public Accountants

## System Review Report

March 10, 2014

To the Partners of Schall & Ashenfarb CPAs, LLC and the Peer Review Committee of the New York Society of CPAs

We have reviewed the system of quality control for the auditing practice of Schall & Ashenfarb CPAs, LLC (the firm) in effect for the year ended August 31, 2013. Our peer review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants. As a part of our peer review, we considered reviews by regulatory entities, if applicable, in determining the nature and extent of our procedures. The firm is responsible for designing a system of quality control and complying with it to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Our responsibility is to express an opinion on the design of the system of quality control and the firm's compliance therewith based on our review. The nature, objectives, scope, limitations of, and the procedures performed in a System Review are described in the standards at [www.aicpa.org/prsummary](http://www.aicpa.org/prsummary).

As required by the standards, engagements selected for review included engagements performed under *Government Auditing Standards* and an audit of an employee benefit plan.

In our opinion, the system of quality control for the auditing practice of Schall & Ashenfarb CPAs, LLC in effect for the year ended August 31, 2013, has been suitably designed and complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Firms can receive a rating of *pass*, *pass with deficiency(ies)*, or *fail*. Schall & Ashenfarb CPAs, LLC has received a peer review rating of *pass*.

  
LILLING & COMPANY LLP



## EXHIBIT 2

545 Willoughby Avenue, 3rd Fl. Brooklyn, NY 11206 (718)302-2085 FAX (718)302-2426

---

**Omigbade Escayg**  
*Head of School/Director*

**Mary Kate Boesch**  
*Assistant Principal*

**Karma Suttles**  
*Assistant Principal*

October 19, 2015

Schall&Ashenfarb, CPA's, LLC  
307 Fifth Avenue, 15<sup>th</sup> Floor  
New York, NY 10016

This representation letter is provided in connection with your audit of the financial statements of Brooklyn Charter School, which comprise the statements of financial position as of June 30, 2015, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, for the purpose of expressing an opinion as to whether the financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States (U.S. GAAP).

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement. An omission or misstatement that is monetarily small in amount could be considered material as a result of qualitative factors.

We confirm, to the best of our knowledge and belief, as of October 19, 2015, the following representations made to you during your audit.

### **Financial Statements**

1. We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated May 18, 2015, including our responsibility for the preparation and fair presentation of the financial statements.
2. The financial statements referred to above are fairly presented in conformity with U.S. GAAP.
3. We acknowledge our responsibility for 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.
4. We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
5. Significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable. This specifically includes the methodology for the statement of functional expenses.

## EXHIBIT 2

6. There have been no related party relationships or transactions that are required to be accounted for or disclosed in accordance with the requirements of U.S. GAAP.
7. There are no events subsequent to the date of the financial statements which requires adjustment to or disclosure in the financial statements to be in accordance with the requirements of U.S. GAAP.
8. There were no uncorrected misstatements that are immaterial, both individually and in the aggregate, to the financial statements as a whole.
9. There were no known actual or possible litigation, claims, and assessments required to be accounted for and disclosed in accordance with U.S. GAAP.
10. There was one material concentration required to be disclosed in accordance with U.S. GAAP related to the New York City Department of Education funding.
11. There were no guarantees, either written or oral, under which the organization is contingently liable, that are required to be recorded or disclosed in accordance with U.S. GAAP.

### **Non Attest Services**

In regard to the non-attest services provided by you, we have:

1. Assumed all management responsibilities.
2. Designated an individual with suitable skill, knowledge, or experience to oversee the services.
3. Evaluated the adequacy and results of the services performed.
4. Accepted responsibility for the results of the services.

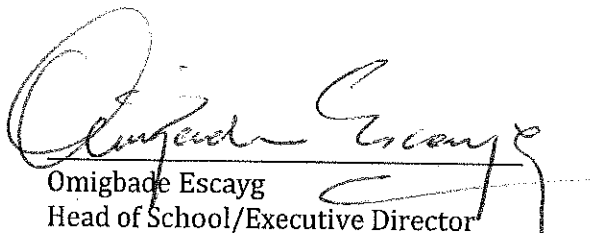
As part of your audit, you prepared the draft financial statements and related notes. We have designated an individual with suitable skill, knowledge, or experience to oversee your services and have assumed all management responsibilities. We have reviewed, approved, and accepted responsibility for those financial statements and related notes.


### **Information Provided**

1. We have provided you with:
  - a) Access to all information, of which we are aware, that is relevant to the preparation and fair presentation of the financial statements, such as records, documentation, and other matters.
  - b) Additional information that you have requested from us for the purpose of the audit.
  - c) Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
2. All material transactions have been recorded in the accounting records and are reflected in the financial statements.
3. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

## EXHIBIT 2

4. We have no knowledge of any fraud or suspected fraud that affects the organization and involves:
  - a) Management,
  - b) Employees who have significant roles in internal control, or
  - c) Others where the fraud could have a material effect on the financial statements.
5. We have no knowledge of any allegations of fraud or suspected fraud affecting the organization's financial statements communicated by employees, former employees, grantors, regulators, or others.
6. We have no knowledge of any instances of noncompliance or suspected noncompliance with laws and regulations whose effects should be considered when preparing financial statements.
7. We are not aware of any pending or threatening litigation, claims, or assessments or unasserted claims or assessments that are required to be accrued or disclosed in the financial statements in accordance with U.S. GAAP.
8. We have disclosed to you the identity of the organization's related parties and all the related party relationships and transactions of which we are aware.
9. The organization has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.
10. We are responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to us; and we have identified and disclosed to you all laws, regulations and provisions of contracts and grant agreements that we believe have a direct and material effect on the determination of financial statement amounts or other financial data significant to the audit objectives.
11. Brooklyn Charter School is an exempt organization under Section 501(c)(3) of the Internal Revenue Code. Any activities of which we are aware that would jeopardize the Organization's tax-exempt status, and all activities subject to tax on unrelated business income or excise or other tax, have been disclosed to you and appropriately reported. All required filings with tax authorities are up-to-date.

  
Omigbade Escayg  
Head of School/Executive Director

  
Colathur Janardhanan  
Business Manager



## **Communication with Those Charged with Governance**

To Board of Trustees of  
Brooklyn Charter School

We have audited the financial statements of Brooklyn Charter School ("the School") for the year ended June 30, 2015, and have issued our report thereon dated October 19, 2015. Professional standards require that we provide you with the following information related to our audit:

### Our Responsibility under Generally Accepted Auditing Standards

As stated in our engagement letter dated May 18, 2015, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with generally accepted accounting principles. Because of the concept of reasonable assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, fraud, or other illegal acts may exist and not be detected by us. Our audit of the financial statements does not relieve you or management of your responsibilities.

### Planned Scope of Audit

We performed our audit according to the plan previously communicated to you in our engagement letter and subsequent pre-audit communication meeting.

### Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the School are described in Note 2 to the financial statements. In fiscal year 2008, the School became the sole member of the Wedding Garden, Inc. As such, accounting principles generally accepted in the United States of America (GAAP) require the consolidation of this other entity and an elimination of intercompany transactions. Because you informed us that the NYS Education Department did not want to review consolidated financial statements from the School, this transaction was accounted for under the equity method. A qualification to our report was required to disclose the GAAP departure.

There were no new accounting policies adopted during the year under audit nor were there any changes to the application of existing policies during the year. Except for the matter discussed above regarding the Wedding Garden we noted no other transactions entered into by the School during the year that was unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

There is one new matter that we would like to bring to your attention. A loan was established for tuition payments for a teacher that had been expensed in prior years in the amount of \$30,290 plus payments in the current year of \$13,596. Although these loans may be forgiven in future periods based on possible contingent events, a loan receivable was recorded as of June 30, 2015. As amounts are forgiven, the loan receivable will be reduced accordingly. Included in current year income (as other income), were the payments of \$30,290 that related to the prior year.

In addition, subsequent to June 30, 2015, the School has applied for a charter renewal. The last renewal extended the charter to June 30, 2016. The notes to the financial statements reflect subsequent to year end, the NYCDOE reported that the School did not meet any of its benchmarks or conditions for renewal based on the test scores for the 2014-2015 school year. While the School believes its charter will be renewed, the School will be notified sometime in January – February 2016 on this decision. **The possibility exists that the School's charter may not be renewed which means that the School would close at June 30, 2016.**

#### Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates used in preparing the financial statements was for in-kind rent, the allocation of expenses into program, management and fundraising categories, fair value of investments and obtaining a value for the Wedding Garden under the equity method.

We evaluated the key factors and assumptions used to develop the above estimate in determining that it was reasonable in relation to the financial statements taken as a whole. The disclosures in the financial statements are neutral, consistent and clear.

#### Significant Audit Adjustments

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. See exhibit C for a listing of all adjustments agreed to by management and include in the financial statements.

For purposes of this letter, professional standards define a significant audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures.

There were no un-booked adjustments.

#### Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.



### Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

### Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management prior to retention as the auditors. There were no specific matters of this nature discussed prior to our retention.

### Difficulties Encountered in Performing the Audit

There were no significant difficulties encountered in performing the audit.

### Management Representations

We have requested certain representations from management that are included in the management representation letter.

### Industry updates

There are several new regulations that impact the nonprofit sector that we want you to be aware of. Some relate to changes that should be implemented as soon as possible and others that are still in the draft stage. To summarize:

### **Uniform Guidance on Federal Awards is in effect for 2015**

In late December 2013, the U.S. Office of Management and Budget (OMB) took a major step to issuing its long awaited final grant reform rules in a document entitled Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards. Final regulations were posted in the Federal Register on December 26, 2013. Many changes were made to cost principles and **they are effective for new federal awards issued in 2015**. The changes to the audit requirements are effective for those entities with a year end of December 31, 2015 and later. It is possible that nonprofit organizations can have grants that follow the older rules and the newer rules, in the same fiscal year. That makes understanding the new rules that much more important. The following describes some of the key areas of change:

#### *Streamlining of Related Circulars and Guidance*

The eight existing OMB Circulars have been combined into one document including Circular A-133 and the various Cost Principles. Additionally, the cost principles have been incorporated into a single document with limited variations by type of entity. This new document supersedes the following OMB Circulars:

- A-21, Cost Principles for Educational Institutions
- A-87, Cost Principles for State, Local, and Indian Tribal Governments
- A-89, Federal Domestic Assistance Program Information
- A-102, Awards and Cooperative Agreements with State and Local Governments

- A-110, Uniform Administrative Requirements for Awards and Other Agreements with Institutions of Higher Education, Hospitals, and Other Nonprofit Organizations
- A-122, Cost Principles for Non-Profit Organizations
- A-133, Audits of States, Local Governments and Non-Profit Organizations
- It will also supersede those sections of A-50, Audit Follow-Up, related to Single Audits

#### *Procurement*

We are finding this to be the most difficult and time consuming new process to implement. That is because the guidance on procurement is more consistent with the older regulations that applied to states and local governments rather than nonprofit organizations. Therefore, major changes have been made to how nonprofits procure goods and services:

There are several new methods that must be followed:

- Micro purchases which applies to goods and services less than \$3,000 and does not require competitive quotes but does require attempts at equitable distribution to avoid all purchases from the same vendor.
- Small purchases which apply to goods and services below the Simplified Acquisition Threshold (\$150,000) and requires multiple rate quotes from qualified sources.
- Sealed bids when services are above the \$150,000 level and which are most applicable for construction.
- Competitive proposals to be used when sealed bids are not practical.

Documentation which includes the detail of the purchase transaction must be maintained that includes support of the procurement method used and the basis of the award and price.

#### *Indirect Costs*

A *de minimus* 10% rate is allowed for those organizations that do not have a negotiated rate with the federal government or cognizant agency. This applies to sub-recipients as well.

#### *Time and Effort Reporting*

A number of changes are included in the documents which provides for more flexibility for entities in how they document time and effort. The key is having a strong system of internal control to capture how employees perform tasks related to grants on an after-the fact basis. Budgets are still not permitted, although guidance has loosened to allow interim costs to be charged based on budgets if it is representative of best estimates and can be adjusted to reflect actual results periodically. Current systems that meet the old requirements of OMB Circular A-122 (timesheets) will still be permitted.

Auditors will make note of the following changes to the single audit:

#### *Single Audit Threshold for Audit Increased to \$750,000*

Entities that expend less than \$750,000 in federal awards would not be required to undergo a single audit. This would represent an increase from the current \$500,000 threshold for single audits which was established in 2003. Any entity that falls below the \$750,000 threshold must make records available for review or audit by appropriate officials of the Federal agency, pass-through entity, and the Government Accountability Office.

**For more information on this, please view an archived version of a webinar that we did on this topic that is saved on our website.**

### **FASB issues exposure draft**

The Financial Accounting Standards Board (FASB) has issued an exposure draft that is being touted as a once in a generation project. This statement, once passed, will have a major impact on the display of financial statements for all nonprofit organizations. As with all new FASB statements, this is still in the public comment period and there will be changes to the final regulation, however the following summary represents some of the objectives of the new regulations:

- The streamlining of net assets classes to two; net assets that contain donor restrictions and net assets that do not contain donor restrictions. This will have a major impact on organizations with endowments as the financial statements will no longer have a permanently restricted class of net assets. There will also be a change to how underwater endowments will be treated.
- Making financial statements more comparable between different entities, a defined measure of operations will become standard.
- Disclosures on liquidity will become more prominent, which will include allowing management to self define what they consider to be assets available for expenditure.
- The direct method of reporting cash flows will be required to enhance the understanding and usability of this statement. This should help the reader by having the statement of cash flows be more intuitive and provide more transparency on liquidity.
- Creating a 4 step process to help determine when revenue should be recognized that is based on the deliverable of goods and services. This would apply to membership, tuition, program fees, but would exclude contributions.

We will keep you notified of when these new changes become finalized.

### **Internal Controls - COSO Updates Integrated Framework**

This new framework, which is recognized as the leading guidance for designing, implementing, and conducting a system of internal control, was updated to ensure its continued relevance. Nonprofits should begin utilizing the new framework in evaluating the effectiveness of its internal controls because this is an area their auditors will be focusing on.

### **Board Governance**

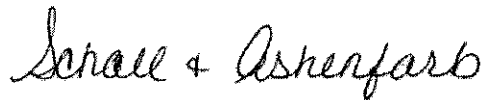
- Overhead Myth - The three major watchdog groups have put out a call to action for donors to focus more on what a charity has done to meet its mission as opposed to how much money it spends on programmatic activity. We are seeing a shift of donations that are tied to achievement of milestones as opposed to funding general, non-specific areas.
- Nonprofit Revitalization Act - Became effective in 2014 and put what had previously been considered best practice into the nonprofit corporate law. The primary areas impact conflicts of interest (having policies that outline how a charity should review and approve transactions with board members, officers, their families and businesses and making sure that these transactions are in the best interest of the charity), monitoring of the independent audit,

including establishing an audit committee of members of the board of directors (or having the full board of directors itself) that meet with the independent auditors regularly, establish whistleblower policies to provide employees with a method to report to the board any suspected fraud within the organization, and other administrative matters.

Independence Issues

Schall & Ashenfarb, CPA's, LLC is not aware of any relationships that our firm, or any employees thereof, has with the School or any of its board members that, in our professional judgment may impair our independence.

This information is intended solely for the use of the Board of Trustees of the Brooklyn Charter School.



Schall & Ashenfarb  
Certified Public Accountants, LLC

October 19, 2015

## EXHIBIT 1



**SCHALL** Certified Public Accountants LLC  
**GASHENFARB**

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

May 18, 2015

Mr. Michael Catlyn, Member of Board of Directors  
And To Those Charged With Governance  
The Brooklyn Charter School  
545 Willoughby Avenue  
Brooklyn, NY 11206

Dear Mr. Catlyn:

We are pleased to confirm our understanding of the services we are to provide for The Brooklyn Charter School for the year ended June 30, 2015.

We will audit the statement of financial position of The Brooklyn Charter School as of June 30, 2015, and the related statements of activities, functional expenses, and cash flows for the year then ended and the notes to the financial statements.

### **Audit Objectives**

The objective of our audit is the expression of an opinion about whether your financial statements are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit will be conducted in accordance with U.S. generally accepted auditing standards and the standards for financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and will include tests of your accounting records and other procedures we consider necessary to enable us to express such an opinion. If our opinion on the financial statements is other than unqualified, we will discuss the reasons with management in advance. If, for any reason, we are unable to complete the audit or are unable to form or have not formed an opinion, we may decline to express an opinion or to issue a report as a result of this engagement.

We will also provide a report (which does not include an opinion) on internal control related to the financial statements and compliance with the provisions of applicable laws, regulations, contracts, agreements, and grants, noncompliance with which could have a material effect on the financial statements as required by *Government Auditing Standards*. The report on internal control and compliance will include a statement that the report is intended solely for the information and use of the audit committee, management, and specific legislative or regulatory bodies and is not intended to be and should not be used by anyone other than these specified parties. If during our audit we become aware that The Brooklyn Charter School is subject to an audit requirement that is not encompassed in the terms of this engagement, we will communicate to management and those charged with governance that an audit in accordance with U.S. generally accepted auditing

307 Fifth Avenue, 15th Floor  
New York, New York 10016  
Tel: (212) 268-2800 Fax: (212) 268-2805  
[www.schallandashenfarb.com](http://www.schallandashenfarb.com)

## EXHIBIT 1

standards and the standards for financial audits contained in *Government Auditing Standards* may not satisfy the relevant legal, regulatory, or contractual requirements.

### **Management Responsibilities**

You are responsible for making all management decisions and performing all management functions; for designating an individual with suitable skill, knowledge, or experience to oversee the financial statement preparation and tax services and any other nonattest services we provide; and for evaluating the adequacy and results of those services and accepting responsibility for them.

**Management is responsible** for establishing and maintaining internal controls, including monitoring ongoing activities; for the selection and application of accounting principles; and for the fair presentation in the financial statements of financial position, changes in net assets, and cash flows in conformity with U. S. generally accepted accounting principles. **Management is responsible** for the basic financial statements and all accompanying information as well as all representations contained therein. **A partner will present the results of our audit to your audit committee or your board of directors (in person or by teleconference).**

**Management is responsible** for management decisions and functions. In accordance with *Government Auditing Standards*, you will be required to review and approve those financial statements prior to their issuance and have a responsibility to be in a position in fact and appearance to make an informed judgment on those financial statements. Further, you are required to designate a qualified management-level individual to be responsible and accountable for overseeing our services.

**Management is responsible** for making all financial records and related information available to us and for the accuracy and completeness of that information. **Management is also responsible** for providing us with (1) access to all information of which you are aware that is relevant to the preparation of the financial statements, (2) additional information that we may request for the purpose of the audit, and (3) unrestricted access to persons within the organization from whom we determine it necessary to obtain audit evidence. **Management's responsibilities include** adjusting the financial statements to correct material misstatements and for confirming to us in the management representation letter that the effects of any uncorrected misstatements aggregated by us during the current engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

If you use a financial consultant to review your books, prepare journal entries or prepare financial statements we will request certain representation from them as well. **Because of the importance of management's representations to an effective audit, failure of management or their financial consultants to provide representations to us in the form of a representation letter will cause our auditors opinion to be a "disclaimer" for a scope limitation.**

**You are responsible** for the design and implementation of programs and controls to prevent and detect fraud, and for informing us about all known or suspected fraud affecting the organization involving (1) management, (2) employees who have significant roles in internal control, and (3) others where the fraud or illegal acts could have a material effect on the financial statements. **Your responsibilities include** informing us of your knowledge of any allegations of fraud or suspected fraud affecting the Organization received in communications from employees, former employees, grantors, regulators, or others. In addition, **you are responsible** for identifying and ensuring that the Organization complies with applicable laws, regulations, contracts, agreements, and grants and

## EXHIBIT 1

for taking timely and appropriate steps to remedy any fraud, illegal acts, violations of contracts or grant agreements, or abuse that we may report.

**Management is responsible** for establishment and maintenance for tracking the status of audit findings and recommendations. **Management is also responsible** for identifying for us previous audits or other engagements or studies related to the objectives discussed in the Audit Objectives section of this letter. This responsibility includes relaying to us corrective actions taken to address significant findings and recommendations resulting from those audits or other engagements or studies. **The Organization is also responsible for providing** management's views on our current findings, conclusions, and recommendations, as well as your planned corrective actions, and the timing and format related thereto.

### **Audit Procedures—General**

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit will involve judgment about the number of transactions to be examined and the areas to be tested. An audit also includes evaluating the appropriateness of accounting policies used and the presentation of the financial statements. We will plan and perform the audit to obtain reasonable rather than absolute assurance about whether the financial statements are free of material misstatement, whether from (1) errors, (2) fraudulent financial reporting, (3) misappropriation of assets, or (4) violations of laws or governmental regulations that are attributable to The Brooklyn Charter School or to acts by management or employees acting on behalf of The Brooklyn Charter School. Because the determination of abuse is subjective, *Government Auditing Standards* do not expect auditors to provide reasonable assurance of detecting abuse.

Because an audit is designed to provide reasonable, but not absolute, assurance and because **we will not perform a detailed examination of all transactions**, there is a risk that material misstatements may exist and not be detected by us, even though the audit is properly planned and performed in accordance with U.S. generally accepted auditing standards and *Government Auditing Standards*. In addition, an audit is not designed to detect immaterial misstatements or violations of laws or governmental regulations that do not have a direct and material effect on the financial statements. However, we will inform you of any material errors and any fraudulent financial reporting or misappropriation of assets that come to our attention. We will also inform you of any violations of laws or governmental regulations that come to our attention, unless clearly inconsequential, and of any material abuse that comes to our attention. Our responsibility as auditors' is limited to the period covered by our audit and does not extend to any later periods for which we are not engaged as auditors.

Our procedures will include tests of documentary evidence supporting the transactions recorded in the accounts, tests of the physical existence of inventories, and direct confirmation of receivables and certain assets and liabilities by correspondence with selected funding sources, creditors, and financial institutions. We will also request written representations from The Brooklyn Charter School's attorneys as part of the engagement, and they may bill The Brooklyn Charter School for responding to this inquiry. At the conclusion of our audit, we will require certain written representations from management about the financial statements and related matters.

## EXHIBIT 1

### **Audit Procedures—Internal Control**

Our audit will include obtaining an understanding of the entity and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing, and extent of further audit procedures. Tests of controls may be performed to test the effectiveness of certain controls that we consider relevant to preventing and detecting errors and fraud that are material to the financial statements and to preventing and detecting misstatements resulting from illegal acts and other noncompliance matters that have a direct and material effect on the financial statements. Our tests, if performed, will be less in scope than would be necessary to render an opinion on internal control and, accordingly, no opinion will be expressed in our report on internal control issued pursuant to *Government Auditing Standards*.

An audit is not designed to provide assurance on internal control or to identify significant deficiencies or material weaknesses. However, during the audit, we will communicate to management and those charged with governance internal control related matters that are required to be communicated under professional standards and *Government Auditing Standards*.

### **Audit Procedures—Compliance**

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we will perform tests of The Brooklyn Charter School's compliance with the provisions of applicable laws, regulations, contracts, agreements, and grants. However, the objective of our audit will not be to provide an opinion on overall compliance and we will not express such an opinion in our report on compliance issued pursuant to *Government Auditing Standards*.

### **Other Services**

We are always available to meet with you and other executives at various times throughout the year to discuss current business, operational, accounting, and auditing matters affecting your Organization. Whenever you feel such meetings are desirable, please let us know. We are also prepared to provide services to assist you in any of these areas. We will also be pleased, at your request, to attend your board of directors' meetings.

In addition to the audit services described above, you have requested that we provide the following non-attest services:

We will assist the Organization in preparing the financial statements and related footnote disclosures based on information in the trial balance and other information that comes to our attention during the course of the our engagement. It is critical that you have an understanding and agree with all information in the financial statements, since they are the entity's, and not the auditors'. We agree to review the financial statements with management in sufficient detail to enable you to gain this required understanding and agreement.

We will prepare the tax returns as outlined separately below.

### **Audit Administration and Other**

We understand that your employees will prepare all cash, accounts receivable, and other confirmations we request and will locate any documents selected by us for testing. Certain financial



## EXHIBIT 1

institutions may charge us for this and the cost will be passed on to you. We will send a template in Word format for use with confirmation requests.

David Ashenfarb is the engagement partner and is responsible for supervising the engagement and signing the reports or authorizing another individual to sign it. Please contact us to discuss a date that we can begin the audit and outline a plan for delivery of draft and final documents to you. Our audit engagement ends on delivery of financial reports; however, we are still available for routine conversations without charge until either party has officially terminated the relationship. Any follow-up services that might be required will be considered a new engagement.

We will provide copies of our reports to you; however, management is responsible for distribution of the reports and the financial statements. Unless restricted by law or regulation, or containing privileged and confidential information, copies of our reports are to be made available for public inspection.

The audit documentation for this engagement is the property of Schall & Ashenfarb, CPAs, LLC and constitutes confidential information. However, pursuant to authority given by law or regulation, we may be requested to make certain audit documentation available to your funding source or its designee, a federal agency providing direct or indirect funding, or the U.S. Government Accountability Office for purposes of a quality review of the audit, to resolve audit findings, or to carry out oversight responsibilities. We will notify you of any such request. If requested, access to such audit documentation will be provided under the supervision of Schall & Ashenfarb's personnel. Furthermore, upon request, we may provide copies of selected audit documentation to the Government Regulator. The Regulator may intend, or decide, to distribute the copies or information contained therein to others, including other governmental agencies.

The audit documentation for this engagement will be retained for a minimum of five years after the report release date or for any additional period requested by the Government Regulator. If we are aware that a federal awarding agency or auditee is contesting an audit finding, we will contact the party(ies) contesting the audit finding for guidance prior to destroying the audit documentation.

### **E-mail Communication**

In connection with this engagement, we may communicate with you or others via e-mail. As e-mails can be intercepted, disclosed, used, and/or otherwise communicated by an unintended third party, or may not be delivered to each of the parties to whom they are directed, we cannot ensure that e-mails from us will be properly delivered and read only by the addressee. Therefore, we disclaim and waive any liability for interception or unintentional disclosure of e-mail transmissions, or for the unauthorized use or failed delivery of e-mails transmitted by us in connection with the performance of this engagement. In that regard, you agree that we shall have no liability for any loss or damage arising from the use of e-mail, including any punitive, consequential, incidental, direct, indirect, or special damages, such as loss of revenues or anticipated profits, or disclosure of confidential information.

### **Posting of Audit Report and Financial Statements on Your Web Site**

You agree that, if you plan to post an electronic version of the financial statements and audit report on your Web site, you will ensure that there are no differences in content between the electronic version of the financial statements and audit report on your Web site and the signed version of the financial statements and audit reports provided to management by us. You also agree to indemnify

## EXHIBIT 1

us from any and all claims that may arise from any differences between the electronic and signed copies.

### **Taxes**

As part of our engagement, we will also prepare the federal information return (Form 990). In order to prepare complete and accurate returns, we will require you to provide certain information about board governance policies, which may also include, but not be limited to, providing salary amounts for employees greater than \$100,000, contractors for professional services in excess of the same amount, names, addresses and dollar amounts of large contributors in excess of certain calculated amounts and other matters that are not generally covered during the audit. If the information is not provided to us timely, you will not hold us responsible for any penalties incurred for incomplete information.

We will send you an authorization form so that we can file your federal taxes electronically. If we do not receive the form back, or you prefer not to file electronically, we will send you hard copies to file. We will also send you electronic copies for your records unless we receive a specific request for hard copies.

### **Fee**

Our fee will remain at \$19,500. At the completion of the audit, we will provide electronic versions of the audited financial statements, management letter (if applicable) and communications with those charged with governance and 10 copies of the final report without charge. Any additional copies will cost \$5 per report. If applicable, we will charge you other out of pocket costs such as postage for confirmations, fees incurred for certain electronic bank confirmations and setting up conference calls through our phone center, etc. Our fee will be billed monthly and is payable upon receipt. Invoices that are unpaid 30 days past the invoice date are deemed delinquent and we reserve the right to charge interest at 1% per month (not to exceed the maximum amount permitted by law.) In the event any collection action is required to collect unpaid balances due to us, you agree to reimburse us for all our costs of collection, including without limitation attorney's fees.

A payment is required upon the signing of this letter in the amount of \$4,500. If we terminate our services for nonpayment, our engagement will be deemed to have been completed upon written notification of termination, even if we have not completed our report. You will be obligated to compensate us for all time expended and to reimburse us for all out-of-pocket expenditures through the date of termination.

If the School receives CSP funding, the grantor may require a separate "agreed upon procedures report". The terms of this engagement do not include additional services required to prepare a separate agreed upon procedures report. If such services are required, a separate agreement outlining the scope of work and related fees will be made at that time.

### **Independence**

Professional and certain regulatory standards require us to be independent, in both fact and appearance, with respect to your Organization in the performance of our services. Any discussions that you have with personnel of our Firm regarding employment could pose a threat to our independence. Therefore, we request that you inform us prior to any such discussions so that we can implement appropriate safeguards to maintain our independence.

## EXHIBIT 1

In order for us to remain independent, professional standards require us to maintain certain respective roles and relationships with you with respect to the non-attest services described above. Prior to performing such services in conjunction with our audit, management must acknowledge its acceptance of certain responsibilities.

We will not perform management functions or make management decisions on behalf of your Organization. However, we will provide advice and recommendations to assist management of the Organization in performing its functions and fulfilling its responsibilities.

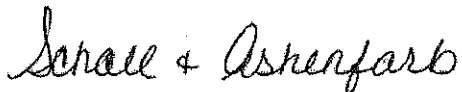
We, in our professional judgment, reserve the right to refuse to perform any procedure or take any action that could be construed as making management decisions or performing management functions. The Organization must make all decisions with regard to our recommendations. By signing this Agreement, you acknowledge your acceptance of these responsibilities.

*Government Auditing Standards* require that we provide you with a copy of our most recent external peer review report and any letter of comment, and any subsequent peer review reports and letters of comment received during the period of the contract. Our 2014 peer review report accompanies this letter.

We have attached a brief questionnaire that will help us plan the timing of the engagement to ensure you receive documents in your desired time frame. Please take a moment to fill that out.

We appreciate the opportunity to be of service to The Brooklyn Charter School and believe this letter accurately summarizes the significant terms of our engagement. If you have any questions, please let us know. If you agree with the terms of our engagement as described in this letter, please sign the enclosed copy and return it to us along with the questionnaire referred to above.

Very truly yours,



Schall & Ashenfarb  
Certified Public Accountants, LLC

EXHIBIT 1

RESPONSE:

This letter correctly sets forth the understanding of The Brooklyn Charter School for the year ended June 30, 2015.

Michael A. Ruffo  
Officer signature

VICE CHAIR BOT  
Title

6/10/2015  
Date

# Lilling & Company LLP

Certified Public Accountants

## System Review Report

March 10, 2014

To the Partners of Schall & Ashenfarb CPAs, LLC and the Peer Review Committee of the New York Society of CPAs

We have reviewed the system of quality control for the auditing practice of Schall & Ashenfarb CPAs, LLC (the firm) in effect for the year ended August 31, 2013. Our peer review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants. As a part of our peer review, we considered reviews by regulatory entities, if applicable, in determining the nature and extent of our procedures. The firm is responsible for designing a system of quality control and complying with it to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Our responsibility is to express an opinion on the design of the system of quality control and the firm's compliance therewith based on our review. The nature, objectives, scope, limitations of, and the procedures performed in a System Review are described in the standards at [www.aicpa.org/prsummary](http://www.aicpa.org/prsummary).

As required by the standards, engagements selected for review included engagements performed under *Government Auditing Standards* and an audit of an employee benefit plan.

In our opinion, the system of quality control for the auditing practice of Schall & Ashenfarb CPAs, LLC in effect for the year ended August 31, 2013, has been suitably designed and complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Firms can receive a rating of *pass*, *pass with deficiency(ies)*, or *fail*. Schall & Ashenfarb CPAs, LLC has received a peer review rating of *pass*.

  
LILLING & COMPANY LLP



## EXHIBIT 2

545 Willoughby Avenue, 3rd Fl. Brooklyn, NY 11206 (718)302-2085 FAX (718)302-2426

---

**Omigbade Escayg**  
*Head of School/Director*

**Mary Kate Boesch**  
*Assistant Principal*

**Karma Suttles**  
*Assistant Principal*

October 19, 2015

Schall&Ashenfarb, CPA's, LLC  
307 Fifth Avenue, 15<sup>th</sup> Floor  
New York, NY 10016

This representation letter is provided in connection with your audit of the financial statements of Brooklyn Charter School, which comprise the statements of financial position as of June 30, 2015, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, for the purpose of expressing an opinion as to whether the financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States (U.S. GAAP).

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement. An omission or misstatement that is monetarily small in amount could be considered material as a result of qualitative factors.

We confirm, to the best of our knowledge and belief, as of October 19, 2015, the following representations made to you during your audit.

### **Financial Statements**

1. We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated May 18, 2015, including our responsibility for the preparation and fair presentation of the financial statements.
2. The financial statements referred to above are fairly presented in conformity with U.S. GAAP.
3. We acknowledge our responsibility for 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.
4. We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
5. Significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable. This specifically includes the methodology for the statement of functional expenses.

## EXHIBIT 2

6. There have been no related party relationships or transactions that are required to be accounted for or disclosed in accordance with the requirements of U.S. GAAP.
7. There are no events subsequent to the date of the financial statements which requires adjustment to or disclosure in the financial statements to be in accordance with the requirements of U.S. GAAP.
8. There were no uncorrected misstatements that are immaterial, both individually and in the aggregate, to the financial statements as a whole.
9. There were no known actual or possible litigation, claims, and assessments required to be accounted for and disclosed in accordance with U.S. GAAP.
10. There was one material concentration required to be disclosed in accordance with U.S. GAAP related to the New York City Department of Education funding.
11. There were no guarantees, either written or oral, under which the organization is contingently liable, that are required to be recorded or disclosed in accordance with U.S. GAAP.

### **Non Attest Services**

In regard to the non-attest services provided by you, we have:

1. Assumed all management responsibilities.
2. Designated an individual with suitable skill, knowledge, or experience to oversee the services.
3. Evaluated the adequacy and results of the services performed.
4. Accepted responsibility for the results of the services.

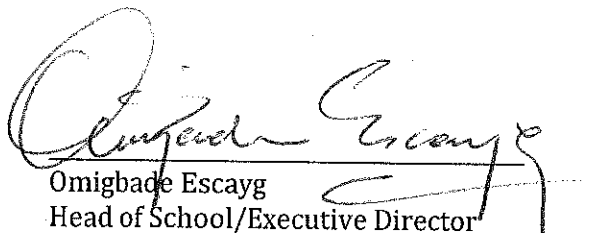
As part of your audit, you prepared the draft financial statements and related notes. We have designated an individual with suitable skill, knowledge, or experience to oversee your services and have assumed all management responsibilities. We have reviewed, approved, and accepted responsibility for those financial statements and related notes.

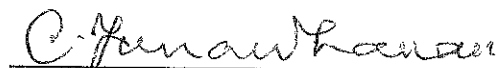
### **Information Provided**

1. We have provided you with:
  - a) Access to all information, of which we are aware, that is relevant to the preparation and fair presentation of the financial statements, such as records, documentation, and other matters.
  - b) Additional information that you have requested from us for the purpose of the audit.
  - c) Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
2. All material transactions have been recorded in the accounting records and are reflected in the financial statements.
3. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

## EXHIBIT 2

4. We have no knowledge of any fraud or suspected fraud that affects the organization and involves:
  - a) Management,
  - b) Employees who have significant roles in internal control, or
  - c) Others where the fraud could have a material effect on the financial statements.
5. We have no knowledge of any allegations of fraud or suspected fraud affecting the organization's financial statements communicated by employees, former employees, grantors, regulators, or others.
6. We have no knowledge of any instances of noncompliance or suspected noncompliance with laws and regulations whose effects should be considered when preparing financial statements.
7. We are not aware of any pending or threatening litigation, claims, or assessments or unasserted claims or assessments that are required to be accrued or disclosed in the financial statements in accordance with U.S. GAAP.
8. We have disclosed to you the identity of the organization's related parties and all the related party relationships and transactions of which we are aware.
9. The organization has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.
10. We are responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to us; and we have identified and disclosed to you all laws, regulations and provisions of contracts and grant agreements that we believe have a direct and material effect on the determination of financial statement amounts or other financial data significant to the audit objectives.
11. Brooklyn Charter School is an exempt organization under Section 501(c)(3) of the Internal Revenue Code. Any activities of which we are aware that would jeopardize the Organization's tax-exempt status, and all activities subject to tax on unrelated business income or excise or other tax, have been disclosed to you and appropriately reported. All required filings with tax authorities are up-to-date.

  
Omigbade Escayg  
Head of School/Executive Director

  
Colathur Janardhanan  
Business Manager





## **Communication with Those Charged with Governance**

To Board of Trustees of  
Brooklyn Charter School

We have audited the financial statements of Brooklyn Charter School ("the School") for the year ended June 30, 2015, and have issued our report thereon dated October 19, 2015. Professional standards require that we provide you with the following information related to our audit.

### Our Responsibility under Generally Accepted Auditing Standards

As stated in our engagement letter dated May 18, 2015, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with generally accepted accounting principles. Because of the concept of reasonable assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, fraud, or other illegal acts may exist and not be detected by us. Our audit of the financial statements does not relieve you or management of your responsibilities.

### Planned Scope of Audit

We performed our audit according to the plan previously communicated to you in our engagement letter and subsequent pre-audit communication meeting.

### Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the School are described in Note 2 to the financial statements. In fiscal year 2008, the School became the sole member of the Wedding Garden, Inc. As such, accounting principles generally accepted in the United States of America (GAAP) require the consolidation of this other entity and an elimination of intercompany transactions. Because you informed us that the NYS Education Department did not want to review consolidated financial statements from the School, this transaction was accounted for under the equity method. A qualification to our report was required to disclose the GAAP departure.

There were no new accounting policies adopted during the year under audit nor were there any changes to the application of existing policies during the year. Except for the matter discussed above regarding the Wedding Garden we noted no other transactions entered into by the School during the year that was unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

There is one new matter that we would like to bring to your attention. A loan was established for tuition payments for a teacher that had been expensed in prior years in the amount of \$30,290 plus payments in the current year of \$13,596. Although these loans may be forgiven in future periods based on possible contingent events, a loan receivable was recorded as of June 30, 2015. As amounts are forgiven, the loan receivable will be reduced accordingly. Included in current year income (as other income), were the payments of \$30,290 that related to the prior year.

In addition, subsequent to June 30, 2015, the School has applied for a charter renewal. The last renewal extended the charter to June 30, 2016. The notes to the financial statements reflect subsequent to year end, the NYCDOE reported that the School did not meet any of its benchmarks or conditions for renewal based on the test scores for the 2014-2015 school year. While the School believes its charter will be renewed, the School will be notified sometime in January – February 2016 on this decision. **The possibility exists that the School's charter may not be renewed which means that the School would close at June 30, 2016.**

#### Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates used in preparing the financial statements was for in-kind rent, the allocation of expenses into program, management and fundraising categories, fair value of investments and obtaining a value for the Wedding Garden under the equity method.

We evaluated the key factors and assumptions used to develop the above estimate in determining that it was reasonable in relation to the financial statements taken as a whole. The disclosures in the financial statements are neutral, consistent and clear.

#### Significant Audit Adjustments

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. See exhibit C for a listing of all adjustments agreed to by management and include in the financial statements.

For purposes of this letter, professional standards define a significant audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures.

There were no un-booked adjustments.

#### Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

#### Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

#### Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management prior to retention as the auditors. There were no specific matters of this nature discussed prior to our retention.

#### Difficulties Encountered in Performing the Audit

There were no significant difficulties encountered in performing the audit.

#### Management Representations

We have requested certain representations from management that are included in the management representation letter.

#### Industry updates

There are several new regulations that impact the nonprofit sector that we want you to be aware of. Some relate to changes that should be implemented as soon as possible and others that are still in the draft stage. To summarize:

#### **Uniform Guidance on Federal Awards is in effect for 2015**

In late December 2013, the U.S. Office of Management and Budget (OMB) took a major step to issuing its long awaited final grant reform rules in a document entitled Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards. Final regulations were posted in the Federal Register on December 26, 2013. Many changes were made to cost principles and **they are effective for new federal awards issued in 2015**. The changes to the audit requirements are effective for those entities with a year end of December 31, 2015 and later. It is possible that nonprofit organizations can have grants that follow the older rules and the newer rules, in the same fiscal year. That makes understanding the new rules that much more important. The following describes some of the key areas of change:

##### *Streamlining of Related Circulars and Guidance*

The eight existing OMB Circulars have been combined into one document including Circular A-133 and the various Cost Principles. Additionally, the cost principles have been incorporated into a single document with limited variations by type of entity. This new document supersedes the following OMB Circulars:

- A-21, Cost Principles for Educational Institutions
- A-87, Cost Principles for State, Local, and Indian Tribal Governments
- A-89, Federal Domestic Assistance Program Information
- A-102, Awards and Cooperative Agreements with State and Local Governments

- A-110, Uniform Administrative Requirements for Awards and Other Agreements with Institutions of Higher Education, Hospitals, and Other Nonprofit Organizations
- A-122, Cost Principles for Non-Profit Organizations
- A-133, Audits of States, Local Governments and Non-Profit Organizations
- It will also supersede those sections of A-50, Audit Follow-Up, related to Single Audits

#### *Procurement*

We are finding this to be the most difficult and time consuming new process to implement. That is because the guidance on procurement is more consistent with the older regulations that applied to states and local governments rather than nonprofit organizations. Therefore, major changes have been made to how nonprofits procure goods and services:

There are several new methods that must be followed:

- Micro purchases which applies to goods and services less than \$3,000 and does not require competitive quotes but does require attempts at equitable distribution to avoid all purchases from the same vendor.
- Small purchases which apply to goods and services below the Simplified Acquisition Threshold (\$150,000) and requires multiple rate quotes from qualified sources.
- Sealed bids when services are above the \$150,000 level and which are most applicable for construction.
- Competitive proposals to be used when sealed bids are not practical.

Documentation which includes the detail of the purchase transaction must be maintained that includes support of the procurement method used and the basis of the award and price.

#### *Indirect Costs*

A *de minimus* 10% rate is allowed for those organizations that do not have a negotiated rate with the federal government or cognizant agency. This applies to sub-recipients as well.

#### *Time and Effort Reporting*

A number of changes are included in the documents which provides for more flexibility for entities in how they document time and effort. The key is having a strong system of internal control to capture how employees perform tasks related to grants on an after-the fact basis. Budgets are still not permitted, although guidance has loosened to allow interim costs to be charged based on budgets if it is representative of best estimates and can be adjusted to reflect actual results periodically. Current systems that meet the old requirements of OMB Circular A-122 (timesheets) will still be permitted.

Auditors will make note of the following changes to the single audit:

#### *Single Audit Threshold for Audit Increased to \$750,000*

Entities that expend less than \$750,000 in federal awards would not be required to undergo a single audit. This would represent an increase from the current \$500,000 threshold for single audits which was established in 2003. Any entity that falls below the \$750,000 threshold must make records available for review or audit by appropriate officials of the Federal agency, pass-through entity, and the Government Accountability Office.

**For more information on this, please view an archived version of a webinar that we did on this topic that is saved on our website.**

### **FASB issues exposure draft**

The Financial Accounting Standards Board (FASB) has issued an exposure draft that is being touted as a once in a generation project. This statement, once passed, will have a major impact on the display of financial statements for all nonprofit organizations. As with all new FASB statements, this is still in the public comment period and there will be changes to the final regulation, however the following summary represents some of the objectives of the new regulations:

- The streamlining of net assets classes to two; net assets that contain donor restrictions and net assets that do not contain donor restrictions. This will have a major impact on organizations with endowments as the financial statements will no longer have a permanently restricted class of net assets. There will also be a change to how underwater endowments will be treated.
- Making financial statements more comparable between different entities, a defined measure of operations will become standard.
- Disclosures on liquidity will become more prominent, which will include allowing management to self define what they consider to be assets available for expenditure.
- The direct method of reporting cash flows will be required to enhance the understanding and usability of this statement. This should help the reader by having the statement of cash flows be more intuitive and provide more transparency on liquidity.
- Creating a 4 step process to help determine when revenue should be recognized that is based on the deliverable of goods and services. This would apply to membership, tuition, program fees, but would exclude contributions.

We will keep you notified of when these new changes become finalized.

### **Internal Controls - COSO Updates Integrated Framework**

This new framework, which is recognized as the leading guidance for designing, implementing, and conducting a system of internal control, was updated to ensure its continued relevance. Nonprofits should begin utilizing the new framework in evaluating the effectiveness of its internal controls because this is an area their auditors will be focusing on.

### **Board Governance**

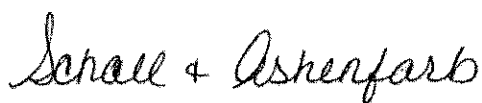
- Overhead Myth - The three major watchdog groups have put out a call to action for donors to focus more on what a charity has done to meet its mission as opposed to how much money it spends on programmatic activity. We are seeing a shift of donations that are tied to achievement of milestones as opposed to funding general, non-specific areas.
- Nonprofit Revitalization Act - Became effective in 2014 and put what had previously been considered best practice into the nonprofit corporate law. The primary areas impact conflicts of interest (having policies that outline how a charity should review and approve transactions with board members, officers, their families and businesses and making sure that these transactions are in the best interest of the charity), monitoring of the independent audit,

including establishing an audit committee of members of the board of directors (or having the full board of directors itself) that meet with the independent auditors regularly, establish whistleblower policies to provide employees with a method to report to the board any suspected fraud within the organization, and other administrative matters.

Independence Issues

Schall & Ashenfarb, CPA's, LLC is not aware of any relationships that our firm, or any employees thereof, has with the School or any of its board members that, in our professional judgment may impair our independence.

This information is intended solely for the use of the Board of Trustees of the Brooklyn Charter School.



Schall & Ashenfarb  
Certified Public Accountants, LLC

October 19, 2015

## EXHIBIT 1



**SCHALL** Certified Public Accountants LLC  
**& ASHENFARB**

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

May 18, 2015

Mr. Michael Catlyn, Member of Board of Directors  
And To Those Charged With Governance  
The Brooklyn Charter School  
545 Willoughby Avenue  
Brooklyn, NY 11206

Dear Mr. Catlyn:

We are pleased to confirm our understanding of the services we are to provide for The Brooklyn Charter School for the year ended June 30, 2015.

We will audit the statement of financial position of The Brooklyn Charter School as of June 30, 2015, and the related statements of activities, functional expenses, and cash flows for the year then ended and the notes to the financial statements.

### **Audit Objectives**

The objective of our audit is the expression of an opinion about whether your financial statements are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit will be conducted in accordance with U.S. generally accepted auditing standards and the standards for financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and will include tests of your accounting records and other procedures we consider necessary to enable us to express such an opinion. If our opinion on the financial statements is other than unqualified, we will discuss the reasons with management in advance. If, for any reason, we are unable to complete the audit or are unable to form or have not formed an opinion, we may decline to express an opinion or to issue a report as a result of this engagement.

We will also provide a report (which does not include an opinion) on internal control related to the financial statements and compliance with the provisions of applicable laws, regulations, contracts, agreements, and grants, noncompliance with which could have a material effect on the financial statements as required by *Government Auditing Standards*. The report on internal control and compliance will include a statement that the report is intended solely for the information and use of the audit committee, management, and specific legislative or regulatory bodies and is not intended to be and should not be used by anyone other than these specified parties. If during our audit we become aware that The Brooklyn Charter School is subject to an audit requirement that is not encompassed in the terms of this engagement, we will communicate to management and those charged with governance that an audit in accordance with U.S. generally accepted auditing

307 Fifth Avenue, 15th Floor  
New York, New York 10016  
Tel: (212) 268-2800 Fax: (212) 268-2805  
[www.schallandashenfARB.com](http://www.schallandashenfARB.com)

## EXHIBIT 1

standards and the standards for financial audits contained in *Government Auditing Standards* may not satisfy the relevant legal, regulatory, or contractual requirements.

### **Management Responsibilities**

You are responsible for making all management decisions and performing all management functions; for designating an individual with suitable skill, knowledge, or experience to oversee the financial statement preparation and tax services and any other nonattest services we provide; and for evaluating the adequacy and results of those services and accepting responsibility for them.

**Management is responsible** for establishing and maintaining internal controls, including monitoring ongoing activities; for the selection and application of accounting principles; and for the fair presentation in the financial statements of financial position, changes in net assets, and cash flows in conformity with U. S. generally accepted accounting principles. **Management is responsible** for the basic financial statements and all accompanying information as well as all representations contained therein. **A partner will present the results of our audit to your audit committee or your board of directors (in person or by teleconference).**

**Management is responsible** for management decisions and functions. In accordance with *Government Auditing Standards*, you will be required to review and approve those financial statements prior to their issuance and have a responsibility to be in a position in fact and appearance to make an informed judgment on those financial statements. Further, you are required to designate a qualified management-level individual to be responsible and accountable for overseeing our services.

**Management is responsible** for making all financial records and related information available to us and for the accuracy and completeness of that information. **Management is also responsible** for providing us with (1) access to all information of which you are aware that is relevant to the preparation of the financial statements, (2) additional information that we may request for the purpose of the audit, and (3) unrestricted access to persons within the organization from whom we determine it necessary to obtain audit evidence. **Management's responsibilities include** adjusting the financial statements to correct material misstatements and for confirming to us in the management representation letter that the effects of any uncorrected misstatements aggregated by us during the current engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

If you use a financial consultant to review your books, prepare journal entries or prepare financial statements we will request certain representation from them as well. **Because of the importance of management's representations to an effective audit, failure of management or their financial consultants to provide representations to us in the form of a representation letter will cause our auditors opinion to be a "disclaimer" for a scope limitation.**

**You are responsible** for the design and implementation of programs and controls to prevent and detect fraud, and for informing us about all known or suspected fraud affecting the organization involving (1) management, (2) employees who have significant roles in internal control, and (3) others where the fraud or illegal acts could have a material effect on the financial statements. **Your responsibilities include** informing us of your knowledge of any allegations of fraud or suspected fraud affecting the Organization received in communications from employees, former employees, grantors, regulators, or others. In addition, **you are responsible** for identifying and ensuring that the Organization complies with applicable laws, regulations, contracts, agreements, and grants and



## EXHIBIT 1

for taking timely and appropriate steps to remedy any fraud, illegal acts, violations of contracts or grant agreements, or abuse that we may report.

**Management is responsible** for establishment and maintenance for tracking the status of audit findings and recommendations. **Management is also responsible** for identifying for us previous audits or other engagements or studies related to the objectives discussed in the Audit Objectives section of this letter. This responsibility includes relaying to us corrective actions taken to address significant findings and recommendations resulting from those audits or other engagements or studies. **The Organization is also responsible for providing** management's views on our current findings, conclusions, and recommendations, as well as your planned corrective actions, and the timing and format related thereto.

### **Audit Procedures—General**

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit will involve judgment about the number of transactions to be examined and the areas to be tested. An audit also includes evaluating the appropriateness of accounting policies used and the presentation of the financial statements. We will plan and perform the audit to obtain reasonable rather than absolute assurance about whether the financial statements are free of material misstatement, whether from (1) errors, (2) fraudulent financial reporting, (3) misappropriation of assets, or (4) violations of laws or governmental regulations that are attributable to The Brooklyn Charter School or to acts by management or employees acting on behalf of The Brooklyn Charter School. Because the determination of abuse is subjective, *Government Auditing Standards* do not expect auditors to provide reasonable assurance of detecting abuse.

Because an audit is designed to provide reasonable, but not absolute, assurance and because **we will not perform a detailed examination of all transactions**, there is a risk that material misstatements may exist and not be detected by us, even though the audit is properly planned and performed in accordance with U.S. generally accepted auditing standards and *Government Auditing Standards*. In addition, an audit is not designed to detect immaterial misstatements or violations of laws or governmental regulations that do not have a direct and material effect on the financial statements. However, we will inform you of any material errors and any fraudulent financial reporting or misappropriation of assets that come to our attention. We will also inform you of any violations of laws or governmental regulations that come to our attention, unless clearly inconsequential, and of any material abuse that comes to our attention. Our responsibility as auditors' is limited to the period covered by our audit and does not extend to any later periods for which we are not engaged as auditors.

Our procedures will include tests of documentary evidence supporting the transactions recorded in the accounts, tests of the physical existence of inventories, and direct confirmation of receivables and certain assets and liabilities by correspondence with selected funding sources, creditors, and financial institutions. We will also request written representations from The Brooklyn Charter School's attorneys as part of the engagement, and they may bill The Brooklyn Charter School for responding to this inquiry. At the conclusion of our audit, we will require certain written representations from management about the financial statements and related matters.

## EXHIBIT 1

### **Audit Procedures—Internal Control**

Our audit will include obtaining an understanding of the entity and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing, and extent of further audit procedures. Tests of controls may be performed to test the effectiveness of certain controls that we consider relevant to preventing and detecting errors and fraud that are material to the financial statements and to preventing and detecting misstatements resulting from illegal acts and other noncompliance matters that have a direct and material effect on the financial statements. Our tests, if performed, will be less in scope than would be necessary to render an opinion on internal control and, accordingly, no opinion will be expressed in our report on internal control issued pursuant to *Government Auditing Standards*.

An audit is not designed to provide assurance on internal control or to identify significant deficiencies or material weaknesses. However, during the audit, we will communicate to management and those charged with governance internal control related matters that are required to be communicated under professional standards and *Government Auditing Standards*.

### **Audit Procedures—Compliance**

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we will perform tests of The Brooklyn Charter School's compliance with the provisions of applicable laws, regulations, contracts, agreements, and grants. However, the objective of our audit will not be to provide an opinion on overall compliance and we will not express such an opinion in our report on compliance issued pursuant to *Government Auditing Standards*.

### **Other Services**

We are always available to meet with you and other executives at various times throughout the year to discuss current business, operational, accounting, and auditing matters affecting your Organization. Whenever you feel such meetings are desirable, please let us know. We are also prepared to provide services to assist you in any of these areas. We will also be pleased, at your request, to attend your board of directors' meetings.

In addition to the audit services described above, you have requested that we provide the following non-attest services:

We will assist the Organization in preparing the financial statements and related footnote disclosures based on information in the trial balance and other information that comes to our attention during the course of the our engagement. It is critical that you have an understanding and agree with all information in the financial statements, since they are the entity's, and not the auditors'. We agree to review the financial statements with management in sufficient detail to enable you to gain this required understanding and agreement.

We will prepare the tax returns as outlined separately below.

### **Audit Administration and Other**

We understand that your employees will prepare all cash, accounts receivable, and other confirmations we request and will locate any documents selected by us for testing. Certain financial

## EXHIBIT 1

institutions may charge us for this and the cost will be passed on to you. We will send a template in Word format for use with confirmation requests.

David Ashenfarb is the engagement partner and is responsible for supervising the engagement and signing the reports or authorizing another individual to sign it. Please contact us to discuss a date that we can begin the audit and outline a plan for delivery of draft and final documents to you. Our audit engagement ends on delivery of financial reports; however, we are still available for routine conversations without charge until either party has officially terminated the relationship. Any follow-up services that might be required will be considered a new engagement.

We will provide copies of our reports to you; however, management is responsible for distribution of the reports and the financial statements. Unless restricted by law or regulation, or containing privileged and confidential information, copies of our reports are to be made available for public inspection.

The audit documentation for this engagement is the property of Schall & Ashenfarb, CPAs, LLC and constitutes confidential information. However, pursuant to authority given by law or regulation, we may be requested to make certain audit documentation available to your funding source or its designee, a federal agency providing direct or indirect funding, or the U.S. Government Accountability Office for purposes of a quality review of the audit, to resolve audit findings, or to carry out oversight responsibilities. We will notify you of any such request. If requested, access to such audit documentation will be provided under the supervision of Schall & Ashenfarb's personnel. Furthermore, upon request, we may provide copies of selected audit documentation to the Government Regulator. The Regulator may intend, or decide, to distribute the copies or information contained therein to others, including other governmental agencies.

The audit documentation for this engagement will be retained for a minimum of five years after the report release date or for any additional period requested by the Government Regulator. If we are aware that a federal awarding agency or auditee is contesting an audit finding, we will contact the party(ies) contesting the audit finding for guidance prior to destroying the audit documentation.

### **E-mail Communication**

In connection with this engagement, we may communicate with you or others via e-mail. As e-mails can be intercepted, disclosed, used, and/or otherwise communicated by an unintended third party, or may not be delivered to each of the parties to whom they are directed, we cannot ensure that e-mails from us will be properly delivered and read only by the addressee. Therefore, we disclaim and waive any liability for interception or unintentional disclosure of e-mail transmissions, or for the unauthorized use or failed delivery of e-mails transmitted by us in connection with the performance of this engagement. In that regard, you agree that we shall have no liability for any loss or damage arising from the use of e-mail, including any punitive, consequential, incidental, direct, indirect, or special damages, such as loss of revenues or anticipated profits, or disclosure of confidential information.

### **Posting of Audit Report and Financial Statements on Your Web Site**

You agree that, if you plan to post an electronic version of the financial statements and audit report on your Web site, you will ensure that there are no differences in content between the electronic version of the financial statements and audit report on your Web site and the signed version of the financial statements and audit reports provided to management by us. You also agree to indemnify

## EXHIBIT 1

us from any and all claims that may arise from any differences between the electronic and signed copies.

### **Taxes**

As part of our engagement, we will also prepare the federal information return (Form 990). In order to prepare complete and accurate returns, we will require you to provide certain information about board governance policies, which may also include, but not be limited to, providing salary amounts for employees greater than \$100,000, contractors for professional services in excess of the same amount, names, addresses and dollar amounts of large contributors in excess of certain calculated amounts and other matters that are not generally covered during the audit. If the information is not provided to us timely, you will not hold us responsible for any penalties incurred for incomplete information.

We will send you an authorization form so that we can file your federal taxes electronically. If we do not receive the form back, or you prefer not to file electronically, we will send you hard copies to file. We will also send you electronic copies for your records unless we receive a specific request for hard copies.

### **Fee**

Our fee will remain at \$19,500. At the completion of the audit, we will provide electronic versions of the audited financial statements, management letter (if applicable) and communications with those charged with governance and 10 copies of the final report without charge. Any additional copies will cost \$5 per report. If applicable, we will charge you other out of pocket costs such as postage for confirmations, fees incurred for certain electronic bank confirmations and setting up conference calls through our phone center, etc. Our fee will be billed monthly and is payable upon receipt. Invoices that are unpaid 30 days past the invoice date are deemed delinquent and we reserve the right to charge interest at 1% per month (not to exceed the maximum amount permitted by law.) In the event any collection action is required to collect unpaid balances due to us, you agree to reimburse us for all our costs of collection, including without limitation attorney's fees.

A payment is required upon the signing of this letter in the amount of \$4,500. If we terminate our services for nonpayment, our engagement will be deemed to have been completed upon written notification of termination, even if we have not completed our report. You will be obligated to compensate us for all time expended and to reimburse us for all out-of-pocket expenditures through the date of termination.

If the School receives CSP funding, the grantor may require a separate "agreed upon procedures report". The terms of this engagement do not include additional services required to prepare a separate agreed upon procedures report. If such services are required, a separate agreement outlining the scope of work and related fees will be made at that time.

### **Independence**

Professional and certain regulatory standards require us to be independent, in both fact and appearance, with respect to your Organization in the performance of our services. Any discussions that you have with personnel of our Firm regarding employment could pose a threat to our independence. Therefore, we request that you inform us prior to any such discussions so that we can implement appropriate safeguards to maintain our independence.

## EXHIBIT 1

In order for us to remain independent, professional standards require us to maintain certain respective roles and relationships with you with respect to the non-attest services described above. Prior to performing such services in conjunction with our audit, management must acknowledge its acceptance of certain responsibilities.

We will not perform management functions or make management decisions on behalf of your Organization. However, we will provide advice and recommendations to assist management of the Organization in performing its functions and fulfilling its responsibilities.

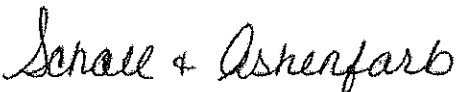
We, in our professional judgment, reserve the right to refuse to perform any procedure or take any action that could be construed as making management decisions or performing management functions. The Organization must make all decisions with regard to our recommendations. By signing this Agreement, you acknowledge your acceptance of these responsibilities.

*Government Auditing Standards* require that we provide you with a copy of our most recent external peer review report and any letter of comment, and any subsequent peer review reports and letters of comment received during the period of the contract. Our 2014 peer review report accompanies this letter.

We have attached a brief questionnaire that will help us plan the timing of the engagement to ensure you receive documents in your desired time frame. Please take a moment to fill that out.

We appreciate the opportunity to be of service to The Brooklyn Charter School and believe this letter accurately summarizes the significant terms of our engagement. If you have any questions, please let us know. If you agree with the terms of our engagement as described in this letter, please sign the enclosed copy and return it to us along with the questionnaire referred to above.

Very truly yours,



Schall & Ashenfarb  
Certified Public Accountants, LLC

EXHIBIT 1

RESPONSE:

This letter correctly sets forth the understanding of The Brooklyn Charter School for the year ended June 30, 2015.

Michael A. Rutledge  
Officer signature

VICE CHAIR BOT  
Title

6/10/2015  
Date

# Lilling & Company LLP

Certified Public Accountants

## System Review Report

March 10, 2014

To the Partners of Schall & Ashenfarb CPAs, LLC and the Peer Review Committee of the New York Society of CPAs

We have reviewed the system of quality control for the auditing practice of Schall & Ashenfarb CPAs, LLC (the firm) in effect for the year ended August 31, 2013. Our peer review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants. As a part of our peer review, we considered reviews by regulatory entities, if applicable, in determining the nature and extent of our procedures. The firm is responsible for designing a system of quality control and complying with it to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Our responsibility is to express an opinion on the design of the system of quality control and the firm's compliance therewith based on our review. The nature, objectives, scope, limitations of, and the procedures performed in a System Review are described in the standards at [www.aicpa.org/prsummary](http://www.aicpa.org/prsummary).

As required by the standards, engagements selected for review included engagements performed under *Government Auditing Standards* and an audit of an employee benefit plan.

In our opinion, the system of quality control for the auditing practice of Schall & Ashenfarb CPAs, LLC in effect for the year ended August 31, 2013, has been suitably designed and complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Firms can receive a rating of *pass*, *pass with deficiency(ies)*, or *fail*. Schall & Ashenfarb CPAs, LLC has received a peer review rating of *pass*.

  
LILLING & COMPANY LLP



## EXHIBIT 2

545 Willoughby Avenue, 3rd Fl. Brooklyn, NY 11206 (718)302-2085 FAX (718)302-2426

---

**Omigbade Escayg**  
*Head of School/Director*

**Mary Kate Boesch**  
*Assistant Principal*

**Karma Suttles**  
*Assistant Principal*

October 19, 2015

Schall&Ashenfarb, CPA's, LLC  
307 Fifth Avenue, 15<sup>th</sup> Floor  
New York, NY 10016

This representation letter is provided in connection with your audit of the financial statements of Brooklyn Charter School, which comprise the statements of financial position as of June 30, 2015, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, for the purpose of expressing an opinion as to whether the financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States (U.S. GAAP).

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement. An omission or misstatement that is monetarily small in amount could be considered material as a result of qualitative factors.

We confirm, to the best of our knowledge and belief, as of October 19, 2015, the following representations made to you during your audit.

### **Financial Statements**

1. We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated May 18, 2015, including our responsibility for the preparation and fair presentation of the financial statements.
2. The financial statements referred to above are fairly presented in conformity with U.S. GAAP.
3. We acknowledge our responsibility for 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.
4. We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
5. Significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable. This specifically includes the methodology for the statement of functional expenses.



## EXHIBIT 2

6. There have been no related party relationships or transactions that are required to be accounted for or disclosed in accordance with the requirements of U.S. GAAP.
7. There are no events subsequent to the date of the financial statements which requires adjustment to or disclosure in the financial statements to be in accordance with the requirements of U.S. GAAP.
8. There were no uncorrected misstatements that are immaterial, both individually and in the aggregate, to the financial statements as a whole.
9. There were no known actual or possible litigation, claims, and assessments required to be accounted for and disclosed in accordance with U.S. GAAP.
10. There was one material concentration required to be disclosed in accordance with U.S. GAAP related to the New York City Department of Education funding.
11. There were no guarantees, either written or oral, under which the organization is contingently liable, that are required to be recorded or disclosed in accordance with U.S. GAAP.

### **Non Attest Services**

In regard to the non-attest services provided by you, we have:

1. Assumed all management responsibilities.
2. Designated an individual with suitable skill, knowledge, or experience to oversee the services.
3. Evaluated the adequacy and results of the services performed.
4. Accepted responsibility for the results of the services.

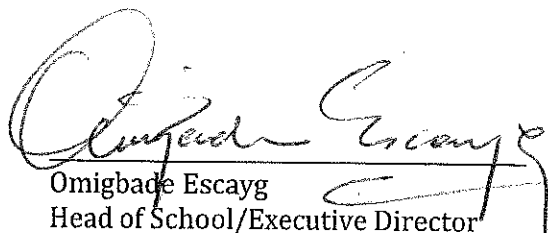
As part of your audit, you prepared the draft financial statements and related notes. We have designated an individual with suitable skill, knowledge, or experience to oversee your services and have assumed all management responsibilities. We have reviewed, approved, and accepted responsibility for those financial statements and related notes.


### **Information Provided**

1. We have provided you with:
  - a) Access to all information, of which we are aware, that is relevant to the preparation and fair presentation of the financial statements, such as records, documentation, and other matters.
  - b) Additional information that you have requested from us for the purpose of the audit.
  - c) Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
2. All material transactions have been recorded in the accounting records and are reflected in the financial statements.
3. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

## EXHIBIT 2

4. We have no knowledge of any fraud or suspected fraud that affects the organization and involves:
  - a) Management,
  - b) Employees who have significant roles in internal control, or
  - c) Others where the fraud could have a material effect on the financial statements.
5. We have no knowledge of any allegations of fraud or suspected fraud affecting the organization's financial statements communicated by employees, former employees, grantors, regulators, or others.
6. We have no knowledge of any instances of noncompliance or suspected noncompliance with laws and regulations whose effects should be considered when preparing financial statements.
7. We are not aware of any pending or threatening litigation, claims, or assessments or unasserted claims or assessments that are required to be accrued or disclosed in the financial statements in accordance with U.S. GAAP.
8. We have disclosed to you the identity of the organization's related parties and all the related party relationships and transactions of which we are aware.
9. The organization has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.
10. We are responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to us; and we have identified and disclosed to you all laws, regulations and provisions of contracts and grant agreements that we believe have a direct and material effect on the determination of financial statement amounts or other financial data significant to the audit objectives.
11. Brooklyn Charter School is an exempt organization under Section 501(c)(3) of the Internal Revenue Code. Any activities of which we are aware that would jeopardize the Organization's tax-exempt status, and all activities subject to tax on unrelated business income or excise or other tax, have been disclosed to you and appropriately reported. All required filings with tax authorities are up-to-date.

  
Omigbade Escayg  
Head of School/Executive Director

  
Colathur Janardhanan  
Business Manager



## **Communication with Those Charged with Governance**

To Board of Trustees of  
Brooklyn Charter School

We have audited the financial statements of Brooklyn Charter School ("the School") for the year ended June 30, 2015, and have issued our report thereon dated October 19, 2015. Professional standards require that we provide you with the following information related to our audit.

### Our Responsibility under Generally Accepted Auditing Standards

As stated in our engagement letter dated May 18, 2015, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with generally accepted accounting principles. Because of the concept of reasonable assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, fraud, or other illegal acts may exist and not be detected by us. Our audit of the financial statements does not relieve you or management of your responsibilities.

### Planned Scope of Audit

We performed our audit according to the plan previously communicated to you in our engagement letter and subsequent pre-audit communication meeting.

### Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the School are described in Note 2 to the financial statements. In fiscal year 2008, the School became the sole member of the Wedding Garden, Inc. As such, accounting principles generally accepted in the United States of America (GAAP) require the consolidation of this other entity and an elimination of intercompany transactions. Because you informed us that the NYS Education Department did not want to review consolidated financial statements from the School, this transaction was accounted for under the equity method. A qualification to our report was required to disclose the GAAP departure.

There were no new accounting policies adopted during the year under audit nor were there any changes to the application of existing policies during the year. Except for the matter discussed above regarding the Wedding Garden we noted no other transactions entered into by the School during the year that was unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

There is one new matter that we would like to bring to your attention. A loan was established for tuition payments for a teacher that had been expensed in prior years in the amount of \$30,290 plus payments in the current year of \$13,596. Although these loans may be forgiven in future periods based on possible contingent events, a loan receivable was recorded as of June 30, 2015. As amounts are forgiven, the loan receivable will be reduced accordingly. Included in current year income (as other income), were the payments of \$30,290 that related to the prior year.

In addition, subsequent to June 30, 2015, the School has applied for a charter renewal. The last renewal extended the charter to June 30, 2016. The notes to the financial statements reflect subsequent to year end, the NYCDOE reported that the School did not meet any of its benchmarks or conditions for renewal based on the test scores for the 2014-2015 school year. While the School believes its charter will be renewed, the School will be notified sometime in January – February 2016 on this decision. **The possibility exists that the School's charter may not be renewed which means that the School would close at June 30, 2016.**

#### Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates used in preparing the financial statements was for in-kind rent, the allocation of expenses into program, management and fundraising categories, fair value of investments and obtaining a value for the Wedding Garden under the equity method.

We evaluated the key factors and assumptions used to develop the above estimate in determining that it was reasonable in relation to the financial statements taken as a whole. The disclosures in the financial statements are neutral, consistent and clear.

#### Significant Audit Adjustments

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. See exhibit C for a listing of all adjustments agreed to by management and include in the financial statements.

For purposes of this letter, professional standards define a significant audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures.

There were no un-booked adjustments.

#### Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

### Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

### Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management prior to retention as the auditors. There were no specific matters of this nature discussed prior to our retention.

### Difficulties Encountered in Performing the Audit

There were no significant difficulties encountered in performing the audit.

### Management Representations

We have requested certain representations from management that are included in the management representation letter.

### Industry updates

There are several new regulations that impact the nonprofit sector that we want you to be aware of. Some relate to changes that should be implemented as soon as possible and others that are still in the draft stage. To summarize:

### **Uniform Guidance on Federal Awards is in effect for 2015**

In late December 2013, the U.S. Office of Management and Budget (OMB) took a major step to issuing its long awaited final grant reform rules in a document entitled Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards. Final regulations were posted in the Federal Register on December 26, 2013. Many changes were made to cost principles and **they are effective for new federal awards issued in 2015**. The changes to the audit requirements are effective for those entities with a year end of December 31, 2015 and later. It is possible that nonprofit organizations can have grants that follow the older rules and the newer rules, in the same fiscal year. That makes understanding the new rules that much more important. The following describes some of the key areas of change:

#### *Streamlining of Related Circulars and Guidance*

The eight existing OMB Circulars have been combined into one document including Circular A-133 and the various Cost Principles. Additionally, the cost principles have been incorporated into a single document with limited variations by type of entity. This new document supersedes the following OMB Circulars:

- A-21, Cost Principles for Educational Institutions
- A-87, Cost Principles for State, Local, and Indian Tribal Governments
- A-89, Federal Domestic Assistance Program Information
- A-102, Awards and Cooperative Agreements with State and Local Governments

- A-110, Uniform Administrative Requirements for Awards and Other Agreements with Institutions of Higher Education, Hospitals, and Other Nonprofit Organizations
- A-122, Cost Principles for Non-Profit Organizations
- A-133, Audits of States, Local Governments and Non-Profit Organizations
- It will also supersede those sections of A-50, Audit Follow-Up, related to Single Audits

#### *Procurement*

We are finding this to be the most difficult and time consuming new process to implement. That is because the guidance on procurement is more consistent with the older regulations that applied to states and local governments rather than nonprofit organizations. Therefore, major changes have been made to how nonprofits procure goods and services:

There are several new methods that must be followed:

- Micro purchases which applies to goods and services less than \$3,000 and does not require competitive quotes but does require attempts at equitable distribution to avoid all purchases from the same vendor.
- Small purchases which apply to goods and services below the Simplified Acquisition Threshold (\$150,000) and requires multiple rate quotes from qualified sources.
- Sealed bids when services are above the \$150,000 level and which are most applicable for construction.
- Competitive proposals to be used when sealed bids are not practical.

Documentation which includes the detail of the purchase transaction must be maintained that includes support of the procurement method used and the basis of the award and price.

#### *Indirect Costs*

A *de minimus* 10% rate is allowed for those organizations that do not have a negotiated rate with the federal government or cognizant agency. This applies to sub-recipients as well.

#### *Time and Effort Reporting*

A number of changes are included in the documents which provides for more flexibility for entities in how they document time and effort. The key is having a strong system of internal control to capture how employees perform tasks related to grants on an after-the fact basis. Budgets are still not permitted, although guidance has loosened to allow interim costs to be charged based on budgets if it is representative of best estimates and can be adjusted to reflect actual results periodically. Current systems that meet the old requirements of OMB Circular A-122 (timesheets) will still be permitted.

Auditors will make note of the following changes to the single audit:

#### *Single Audit Threshold for Audit Increased to \$750,000*

Entities that expend less than \$750,000 in federal awards would not be required to undergo a single audit. This would represent an increase from the current \$500,000 threshold for single audits which was established in 2003. Any entity that falls below the \$750,000 threshold must make records available for review or audit by appropriate officials of the Federal agency, pass-through entity, and the Government Accountability Office.

**For more information on this, please view an archived version of a webinar that we did on this topic that is saved on our website.**

### **FASB issues exposure draft**

The Financial Accounting Standards Board (FASB) has issued an exposure draft that is being touted as a once in a generation project. This statement, once passed, will have a major impact on the display of financial statements for all nonprofit organizations. As with all new FASB statements, this is still in the public comment period and there will be changes to the final regulation, however the following summary represents some of the objectives of the new regulations:

- The streamlining of net assets classes to two; net assets that contain donor restrictions and net assets that do not contain donor restrictions. This will have a major impact on organizations with endowments as the financial statements will no longer have a permanently restricted class of net assets. There will also be a change to how underwater endowments will be treated.
- Making financial statements more comparable between different entities, a defined measure of operations will become standard.
- Disclosures on liquidity will become more prominent, which will include allowing management to self define what they consider to be assets available for expenditure.
- The direct method of reporting cash flows will be required to enhance the understanding and usability of this statement. This should help the reader by having the statement of cash flows be more intuitive and provide more transparency on liquidity.
- Creating a 4 step process to help determine when revenue should be recognized that is based on the deliverable of goods and services. This would apply to membership, tuition, program fees, but would exclude contributions.

We will keep you notified of when these new changes become finalized.

### **Internal Controls - COSO Updates Integrated Framework**

This new framework, which is recognized as the leading guidance for designing, implementing, and conducting a system of internal control, was updated to ensure its continued relevance. Nonprofits should begin utilizing the new framework in evaluating the effectiveness of its internal controls because this is an area their auditors will be focusing on.

### **Board Governance**

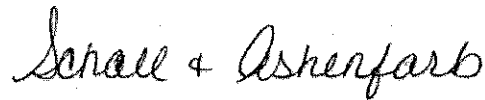
- Overhead Myth - The three major watchdog groups have put out a call to action for donors to focus more on what a charity has done to meet its mission as opposed to how much money it spends on programmatic activity. We are seeing a shift of donations that are tied to achievement of milestones as opposed to funding general, non-specific areas.
- Nonprofit Revitalization Act - Became effective in 2014 and put what had previously been considered best practice into the nonprofit corporate law. The primary areas impact conflicts of interest (having policies that outline how a charity should review and approve transactions with board members, officers, their families and businesses and making sure that these transactions are in the best interest of the charity), monitoring of the independent audit,

including establishing an audit committee of members of the board of directors (or having the full board of directors itself) that meet with the independent auditors regularly, establish whistleblower policies to provide employees with a method to report to the board any suspected fraud within the organization, and other administrative matters.

Independence Issues

Schall & Ashenfarb, CPA's, LLC is not aware of any relationships that our firm, or any employees thereof, has with the School or any of its board members that, in our professional judgment may impair our independence.

This information is intended solely for the use of the Board of Trustees of the Brooklyn Charter School.



Schall & Ashenfarb  
Certified Public Accountants, LLC

October 19, 2015





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

May 18, 2015

Mr. Michael Catlyn, Member of Board of Directors  
And To Those Charged With Governance  
The Brooklyn Charter School  
545 Willoughby Avenue  
Brooklyn, NY 11206

Dear Mr. Catlyn:

We are pleased to confirm our understanding of the services we are to provide for The Brooklyn Charter School for the year ended June 30, 2015.

We will audit the statement of financial position of The Brooklyn Charter School as of June 30, 2015, and the related statements of activities, functional expenses, and cash flows for the year then ended and the notes to the financial statements.

#### **Audit Objectives**

The objective of our audit is the expression of an opinion about whether your financial statements are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit will be conducted in accordance with U.S. generally accepted auditing standards and the standards for financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and will include tests of your accounting records and other procedures we consider necessary to enable us to express such an opinion. If our opinion on the financial statements is other than unqualified, we will discuss the reasons with management in advance. If, for any reason, we are unable to complete the audit or are unable to form or have not formed an opinion, we may decline to express an opinion or to issue a report as a result of this engagement.

We will also provide a report (which does not include an opinion) on internal control related to the financial statements and compliance with the provisions of applicable laws, regulations, contracts, agreements, and grants, noncompliance with which could have a material effect on the financial statements as required by *Government Auditing Standards*. The report on internal control and compliance will include a statement that the report is intended solely for the information and use of the audit committee, management, and specific legislative or regulatory bodies and is not intended to be and should not be used by anyone other than these specified parties. If during our audit we become aware that The Brooklyn Charter School is subject to an audit requirement that is not encompassed in the terms of this engagement, we will communicate to management and those charged with governance that an audit in accordance with U.S. generally accepted auditing

## EXHIBIT 1

standards and the standards for financial audits contained in *Government Auditing Standards* may not satisfy the relevant legal, regulatory, or contractual requirements.

### **Management Responsibilities**

You are responsible for making all management decisions and performing all management functions; for designating an individual with suitable skill, knowledge, or experience to oversee the financial statement preparation and tax services and any other nonattest services we provide; and for evaluating the adequacy and results of those services and accepting responsibility for them.

**Management is responsible** for establishing and maintaining internal controls, including monitoring ongoing activities; for the selection and application of accounting principles; and for the fair presentation in the financial statements of financial position, changes in net assets, and cash flows in conformity with U. S. generally accepted accounting principles. **Management is responsible** for the basic financial statements and all accompanying information as well as all representations contained therein. **A partner will present the results of our audit to your audit committee or your board of directors (in person or by teleconference).**

**Management is responsible** for management decisions and functions. In accordance with *Government Auditing Standards*, you will be required to review and approve those financial statements prior to their issuance and have a responsibility to be in a position in fact and appearance to make an informed judgment on those financial statements. Further, you are required to designate a qualified management-level individual to be responsible and accountable for overseeing our services.

**Management is responsible** for making all financial records and related information available to us and for the accuracy and completeness of that information. **Management is also responsible** for providing us with (1) access to all information of which you are aware that is relevant to the preparation of the financial statements, (2) additional information that we may request for the purpose of the audit, and (3) unrestricted access to persons within the organization from whom we determine it necessary to obtain audit evidence. **Management's responsibilities include** adjusting the financial statements to correct material misstatements and for confirming to us in the management representation letter that the effects of any uncorrected misstatements aggregated by us during the current engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

If you use a financial consultant to review your books, prepare journal entries or prepare financial statements we will request certain representation from them as well. **Because of the importance of management's representations to an effective audit, failure of management or their financial consultants to provide representations to us in the form of a representation letter will cause our auditors opinion to be a "disclaimer" for a scope limitation.**

**You are responsible** for the design and implementation of programs and controls to prevent and detect fraud, and for informing us about all known or suspected fraud affecting the organization involving (1) management, (2) employees who have significant roles in internal control, and (3) others where the fraud or illegal acts could have a material effect on the financial statements. **Your responsibilities include** informing us of your knowledge of any allegations of fraud or suspected fraud affecting the Organization received in communications from employees, former employees, grantors, regulators, or others. In addition, **you are responsible** for identifying and ensuring that the Organization complies with applicable laws, regulations, contracts, agreements, and grants and

## EXHIBIT 1

for taking timely and appropriate steps to remedy any fraud, illegal acts, violations of contracts or grant agreements, or abuse that we may report.

**Management is responsible** for establishment and maintenance for tracking the status of audit findings and recommendations. **Management is also responsible** for identifying for us previous audits or other engagements or studies related to the objectives discussed in the Audit Objectives section of this letter. This responsibility includes relaying to us corrective actions taken to address significant findings and recommendations resulting from those audits or other engagements or studies. **The Organization is also responsible for providing** management's views on our current findings, conclusions, and recommendations, as well as your planned corrective actions, and the timing and format related thereto.

### **Audit Procedures—General**

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit will involve judgment about the number of transactions to be examined and the areas to be tested. An audit also includes evaluating the appropriateness of accounting policies used and the presentation of the financial statements. We will plan and perform the audit to obtain reasonable rather than absolute assurance about whether the financial statements are free of material misstatement, whether from (1) errors, (2) fraudulent financial reporting, (3) misappropriation of assets, or (4) violations of laws or governmental regulations that are attributable to The Brooklyn Charter School or to acts by management or employees acting on behalf of The Brooklyn Charter School. Because the determination of abuse is subjective, *Government Auditing Standards* do not expect auditors to provide reasonable assurance of detecting abuse.

Because an audit is designed to provide reasonable, but not absolute, assurance and because **we will not perform a detailed examination of all transactions**, there is a risk that material misstatements may exist and not be detected by us, even though the audit is properly planned and performed in accordance with U.S. generally accepted auditing standards and *Government Auditing Standards*. In addition, an audit is not designed to detect immaterial misstatements or violations of laws or governmental regulations that do not have a direct and material effect on the financial statements. However, we will inform you of any material errors and any fraudulent financial reporting or misappropriation of assets that come to our attention. We will also inform you of any violations of laws or governmental regulations that come to our attention, unless clearly inconsequential, and of any material abuse that comes to our attention. Our responsibility as auditors' is limited to the period covered by our audit and does not extend to any later periods for which we are not engaged as auditors.

Our procedures will include tests of documentary evidence supporting the transactions recorded in the accounts, tests of the physical existence of inventories, and direct confirmation of receivables and certain assets and liabilities by correspondence with selected funding sources, creditors, and financial institutions. We will also request written representations from The Brooklyn Charter School's attorneys as part of the engagement, and they may bill The Brooklyn Charter School for responding to this inquiry. At the conclusion of our audit, we will require certain written representations from management about the financial statements and related matters.

## EXHIBIT 1

### **Audit Procedures—Internal Control**

Our audit will include obtaining an understanding of the entity and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing, and extent of further audit procedures. Tests of controls may be performed to test the effectiveness of certain controls that we consider relevant to preventing and detecting errors and fraud that are material to the financial statements and to preventing and detecting misstatements resulting from illegal acts and other noncompliance matters that have a direct and material effect on the financial statements. Our tests, if performed, will be less in scope than would be necessary to render an opinion on internal control and, accordingly, no opinion will be expressed in our report on internal control issued pursuant to *Government Auditing Standards*.

An audit is not designed to provide assurance on internal control or to identify significant deficiencies or material weaknesses. However, during the audit, we will communicate to management and those charged with governance internal control related matters that are required to be communicated under professional standards and *Government Auditing Standards*.

### **Audit Procedures—Compliance**

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we will perform tests of The Brooklyn Charter School's compliance with the provisions of applicable laws, regulations, contracts, agreements, and grants. However, the objective of our audit will not be to provide an opinion on overall compliance and we will not express such an opinion in our report on compliance issued pursuant to *Government Auditing Standards*.

### **Other Services**

We are always available to meet with you and other executives at various times throughout the year to discuss current business, operational, accounting, and auditing matters affecting your Organization. Whenever you feel such meetings are desirable, please let us know. We are also prepared to provide services to assist you in any of these areas. We will also be pleased, at your request, to attend your board of directors' meetings.

In addition to the audit services described above, you have requested that we provide the following non-attest services:

We will assist the Organization in preparing the financial statements and related footnote disclosures based on information in the trial balance and other information that comes to our attention during the course of the our engagement. It is critical that you have an understanding and agree with all information in the financial statements, since they are the entity's, and not the auditors'. We agree to review the financial statements with management in sufficient detail to enable you to gain this required understanding and agreement.

We will prepare the tax returns as outlined separately below.

### **Audit Administration and Other**

We understand that your employees will prepare all cash, accounts receivable, and other confirmations we request and will locate any documents selected by us for testing. Certain financial

## EXHIBIT 1

institutions may charge us for this and the cost will be passed on to you. We will send a template in Word format for use with confirmation requests.

David Ashenfarb is the engagement partner and is responsible for supervising the engagement and signing the reports or authorizing another individual to sign it. Please contact us to discuss a date that we can begin the audit and outline a plan for delivery of draft and final documents to you. Our audit engagement ends on delivery of financial reports; however, we are still available for routine conversations without charge until either party has officially terminated the relationship. Any follow-up services that might be required will be considered a new engagement.

We will provide copies of our reports to you; however, management is responsible for distribution of the reports and the financial statements. Unless restricted by law or regulation, or containing privileged and confidential information, copies of our reports are to be made available for public inspection.

The audit documentation for this engagement is the property of Schall & Ashenfarb, CPAs, LLC and constitutes confidential information. However, pursuant to authority given by law or regulation, we may be requested to make certain audit documentation available to your funding source or its designee, a federal agency providing direct or indirect funding, or the U.S. Government Accountability Office for purposes of a quality review of the audit, to resolve audit findings, or to carry out oversight responsibilities. We will notify you of any such request. If requested, access to such audit documentation will be provided under the supervision of Schall & Ashenfarb's personnel. Furthermore, upon request, we may provide copies of selected audit documentation to the Government Regulator. The Regulator may intend, or decide, to distribute the copies or information contained therein to others, including other governmental agencies.

The audit documentation for this engagement will be retained for a minimum of five years after the report release date or for any additional period requested by the Government Regulator. If we are aware that a federal awarding agency or auditee is contesting an audit finding, we will contact the party(ies) contesting the audit finding for guidance prior to destroying the audit documentation.

### **E-mail Communication**

In connection with this engagement, we may communicate with you or others via e-mail. As e-mails can be intercepted, disclosed, used, and/or otherwise communicated by an unintended third party, or may not be delivered to each of the parties to whom they are directed, we cannot ensure that e-mails from us will be properly delivered and read only by the addressee. Therefore, we disclaim and waive any liability for interception or unintentional disclosure of e-mail transmissions, or for the unauthorized use or failed delivery of e-mails transmitted by us in connection with the performance of this engagement. In that regard, you agree that we shall have no liability for any loss or damage arising from the use of e-mail, including any punitive, consequential, incidental, direct, indirect, or special damages, such as loss of revenues or anticipated profits, or disclosure of confidential information.

### **Posting of Audit Report and Financial Statements on Your Web Site**

You agree that, if you plan to post an electronic version of the financial statements and audit report on your Web site, you will ensure that there are no differences in content between the electronic version of the financial statements and audit report on your Web site and the signed version of the financial statements and audit reports provided to management by us. You also agree to indemnify

## EXHIBIT 1

us from any and all claims that may arise from any differences between the electronic and signed copies.

### **Taxes**

As part of our engagement, we will also prepare the federal information return (Form 990). In order to prepare complete and accurate returns, we will require you to provide certain information about board governance policies, which may also include, but not be limited to, providing salary amounts for employees greater than \$100,000, contractors for professional services in excess of the same amount, names, addresses and dollar amounts of large contributors in excess of certain calculated amounts and other matters that are not generally covered during the audit. If the information is not provided to us timely, you will not hold us responsible for any penalties incurred for incomplete information.

We will send you an authorization form so that we can file your federal taxes electronically. If we do not receive the form back, or you prefer not to file electronically, we will send you hard copies to file. We will also send you electronic copies for your records unless we receive a specific request for hard copies.

### **Fee**

Our fee will remain at \$19,500. At the completion of the audit, we will provide electronic versions of the audited financial statements, management letter (if applicable) and communications with those charged with governance and 10 copies of the final report without charge. Any additional copies will cost \$5 per report. If applicable, we will charge you other out of pocket costs such as postage for confirmations, fees incurred for certain electronic bank confirmations and setting up conference calls through our phone center, etc. Our fee will be billed monthly and is payable upon receipt. Invoices that are unpaid 30 days past the invoice date are deemed delinquent and we reserve the right to charge interest at 1% per month (not to exceed the maximum amount permitted by law.) In the event any collection action is required to collect unpaid balances due to us, you agree to reimburse us for all our costs of collection, including without limitation attorney's fees.

A payment is required upon the signing of this letter in the amount of \$4,500. If we terminate our services for nonpayment, our engagement will be deemed to have been completed upon written notification of termination, even if we have not completed our report. You will be obligated to compensate us for all time expended and to reimburse us for all out-of-pocket expenditures through the date of termination.

If the School receives CSP funding, the grantor may require a separate "agreed upon procedures report". The terms of this engagement do not include additional services required to prepare a separate agreed upon procedures report. If such services are required, a separate agreement outlining the scope of work and related fees will be made at that time.

### **Independence**

Professional and certain regulatory standards require us to be independent, in both fact and appearance, with respect to your Organization in the performance of our services. Any discussions that you have with personnel of our Firm regarding employment could pose a threat to our independence. Therefore, we request that you inform us prior to any such discussions so that we can implement appropriate safeguards to maintain our independence.

## EXHIBIT 1

In order for us to remain independent, professional standards require us to maintain certain respective roles and relationships with you with respect to the non-attest services described above. Prior to performing such services in conjunction with our audit, management must acknowledge its acceptance of certain responsibilities.

We will not perform management functions or make management decisions on behalf of your Organization. However, we will provide advice and recommendations to assist management of the Organization in performing its functions and fulfilling its responsibilities.

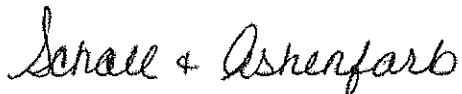
We, in our professional judgment, reserve the right to refuse to perform any procedure or take any action that could be construed as making management decisions or performing management functions. The Organization must make all decisions with regard to our recommendations. By signing this Agreement, you acknowledge your acceptance of these responsibilities.

*Government Auditing Standards* require that we provide you with a copy of our most recent external peer review report and any letter of comment, and any subsequent peer review reports and letters of comment received during the period of the contract. Our 2014 peer review report accompanies this letter.

We have attached a brief questionnaire that will help us plan the timing of the engagement to ensure you receive documents in your desired time frame. Please take a moment to fill that out.

We appreciate the opportunity to be of service to The Brooklyn Charter School and believe this letter accurately summarizes the significant terms of our engagement. If you have any questions, please let us know. If you agree with the terms of our engagement as described in this letter, please sign the enclosed copy and return it to us along with the questionnaire referred to above.

Very truly yours,



Schall & Ashenfarb  
Certified Public Accountants, LLC

EXHIBIT 1

RESPONSE:

This letter correctly sets forth the understanding of The Brooklyn Charter School for the year ended June 30, 2015.

Michael A. Russo  
Officer signature

VICE CHAIR BOT  
Title

6/10/2015  
Date



# Lilling & Company LLP

Certified Public Accountants

## System Review Report

March 10, 2014

To the Partners of Schall & Ashenfarb CPAs, LLC and the Peer Review Committee of the New York Society of CPAs

We have reviewed the system of quality control for the auditing practice of Schall & Ashenfarb CPAs, LLC (the firm) in effect for the year ended August 31, 2013. Our peer review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants. As a part of our peer review, we considered reviews by regulatory entities, if applicable, in determining the nature and extent of our procedures. The firm is responsible for designing a system of quality control and complying with it to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Our responsibility is to express an opinion on the design of the system of quality control and the firm's compliance therewith based on our review. The nature, objectives, scope, limitations of, and the procedures performed in a System Review are described in the standards at [www.aicpa.org/prsummary](http://www.aicpa.org/prsummary).

As required by the standards, engagements selected for review included engagements performed under *Government Auditing Standards* and an audit of an employee benefit plan.

In our opinion, the system of quality control for the auditing practice of Schall & Ashenfarb CPAs, LLC in effect for the year ended August 31, 2013, has been suitably designed and complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Firms can receive a rating of *pass*, *pass with deficiency(ies)*, or *fail*. Schall & Ashenfarb CPAs, LLC has received a peer review rating of *pass*.



LILLING & COMPANY LLP



## EXHIBIT 2

545 Willoughby Avenue, 3rd Fl. Brooklyn, NY 11206 (718)302-2085 FAX (718)302-2426

---

**Omigbade Escayg**  
*Head of School/Director*

**Mary Kate Boesch**  
*Assistant Principal*

**Karma Suttles**  
*Assistant Principal*

October 19, 2015

Schall&Ashenfarb, CPA's, LLC  
307 Fifth Avenue, 15<sup>th</sup> Floor  
New York, NY 10016

This representation letter is provided in connection with your audit of the financial statements of Brooklyn Charter School, which comprise the statements of financial position as of June 30, 2015, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, for the purpose of expressing an opinion as to whether the financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States (U.S. GAAP).

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement. An omission or misstatement that is monetarily small in amount could be considered material as a result of qualitative factors.

We confirm, to the best of our knowledge and belief, as of October 19, 2015, the following representations made to you during your audit.

### **Financial Statements**

1. We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated May 18, 2015, including our responsibility for the preparation and fair presentation of the financial statements.
2. The financial statements referred to above are fairly presented in conformity with U.S. GAAP.
3. We acknowledge our responsibility for 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.
4. We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
5. Significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable. This specifically includes the methodology for the statement of functional expenses.

## EXHIBIT 2

6. There have been no related party relationships or transactions that are required to be accounted for or disclosed in accordance with the requirements of U.S. GAAP.
7. There are no events subsequent to the date of the financial statements which requires adjustment to or disclosure in the financial statements to be in accordance with the requirements of U.S. GAAP.
8. There were no uncorrected misstatements that are immaterial, both individually and in the aggregate, to the financial statements as a whole.
9. There were no known actual or possible litigation, claims, and assessments required to be accounted for and disclosed in accordance with U.S. GAAP.
10. There was one material concentration required to be disclosed in accordance with U.S. GAAP related to the New York City Department of Education funding.
11. There were no guarantees, either written or oral, under which the organization is contingently liable, that are required to be recorded or disclosed in accordance with U.S. GAAP.

### **Non Attest Services**

In regard to the non-attest services provided by you, we have:

1. Assumed all management responsibilities.
2. Designated an individual with suitable skill, knowledge, or experience to oversee the services.
3. Evaluated the adequacy and results of the services performed.
4. Accepted responsibility for the results of the services.

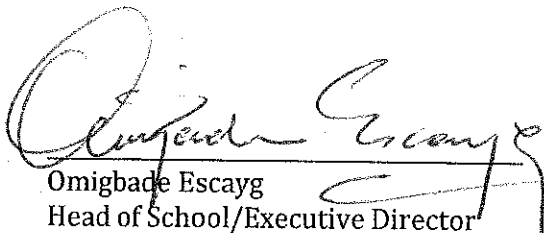
As part of your audit, you prepared the draft financial statements and related notes. We have designated an individual with suitable skill, knowledge, or experience to oversee your services and have assumed all management responsibilities. We have reviewed, approved, and accepted responsibility for those financial statements and related notes.

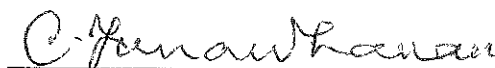
### **Information Provided**

1. We have provided you with:
  - a) Access to all information, of which we are aware, that is relevant to the preparation and fair presentation of the financial statements, such as records, documentation, and other matters.
  - b) Additional information that you have requested from us for the purpose of the audit.
  - c) Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
2. All material transactions have been recorded in the accounting records and are reflected in the financial statements.
3. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

## EXHIBIT 2

4. We have no knowledge of any fraud or suspected fraud that affects the organization and involves:
  - a) Management,
  - b) Employees who have significant roles in internal control, or
  - c) Others where the fraud could have a material effect on the financial statements.
5. We have no knowledge of any allegations of fraud or suspected fraud affecting the organization's financial statements communicated by employees, former employees, grantors, regulators, or others.
6. We have no knowledge of any instances of noncompliance or suspected noncompliance with laws and regulations whose effects should be considered when preparing financial statements.
7. We are not aware of any pending or threatening litigation, claims, or assessments or unasserted claims or assessments that are required to be accrued or disclosed in the financial statements in accordance with U.S. GAAP.
8. We have disclosed to you the identity of the organization's related parties and all the related party relationships and transactions of which we are aware.
9. The organization has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.
10. We are responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to us; and we have identified and disclosed to you all laws, regulations and provisions of contracts and grant agreements that we believe have a direct and material effect on the determination of financial statement amounts or other financial data significant to the audit objectives.
11. Brooklyn Charter School is an exempt organization under Section 501(c)(3) of the Internal Revenue Code. Any activities of which we are aware that would jeopardize the Organization's tax-exempt status, and all activities subject to tax on unrelated business income or excise or other tax, have been disclosed to you and appropriately reported. All required filings with tax authorities are up-to-date.

  
Omigbade Escayg  
Head of School/Executive Director

  
Colathur Janardhanan  
Business Manager



## **Communication with Those Charged with Governance**

To Board of Trustees of  
Brooklyn Charter School

We have audited the financial statements of Brooklyn Charter School ("the School") for the year ended June 30, 2015, and have issued our report thereon dated October 19, 2015. Professional standards require that we provide you with the following information related to our audit.

### Our Responsibility under Generally Accepted Auditing Standards

As stated in our engagement letter dated May 18, 2015, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with generally accepted accounting principles. Because of the concept of reasonable assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, fraud, or other illegal acts may exist and not be detected by us. Our audit of the financial statements does not relieve you or management of your responsibilities.

### Planned Scope of Audit

We performed our audit according to the plan previously communicated to you in our engagement letter and subsequent pre-audit communication meeting.

### Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the School are described in Note 2 to the financial statements. In fiscal year 2008, the School became the sole member of the Wedding Garden, Inc. As such, accounting principles generally accepted in the United States of America (GAAP) require the consolidation of this other entity and an elimination of intercompany transactions. Because you informed us that the NYS Education Department did not want to review consolidated financial statements from the School, this transaction was accounted for under the equity method. A qualification to our report was required to disclose the GAAP departure.

There were no new accounting policies adopted during the year under audit nor were there any changes to the application of existing policies during the year. Except for the matter discussed above regarding the Wedding Garden we noted no other transactions entered into by the School during the year that was unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

There is one new matter that we would like to bring to your attention. A loan was established for tuition payments for a teacher that had been expensed in prior years in the amount of \$30,290 plus payments in the current year of \$13,596. Although these loans may be forgiven in future periods based on possible contingent events, a loan receivable was recorded as of June 30, 2015. As amounts are forgiven, the loan receivable will be reduced accordingly. Included in current year income (as other income), were the payments of \$30,290 that related to the prior year.

In addition, subsequent to June 30, 2015, the School has applied for a charter renewal. The last renewal extended the charter to June 30, 2016. The notes to the financial statements reflect subsequent to year end, the NYCDOE reported that the School did not meet any of its benchmarks or conditions for renewal based on the test scores for the 2014-2015 school year. While the School believes its charter will be renewed, the School will be notified sometime in January – February 2016 on this decision. **The possibility exists that the School's charter may not be renewed which means that the School would close at June 30, 2016.**

#### Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates used in preparing the financial statements was for in-kind rent, the allocation of expenses into program, management and fundraising categories, fair value of investments and obtaining a value for the Wedding Garden under the equity method.

We evaluated the key factors and assumptions used to develop the above estimate in determining that it was reasonable in relation to the financial statements taken as a whole. The disclosures in the financial statements are neutral, consistent and clear.

#### Significant Audit Adjustments

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. See exhibit C for a listing of all adjustments agreed to by management and include in the financial statements.

For purposes of this letter, professional standards define a significant audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures.

There were no un-booked adjustments.

#### Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

### Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

### Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management prior to retention as the auditors. There were no specific matters of this nature discussed prior to our retention.

### Difficulties Encountered in Performing the Audit

There were no significant difficulties encountered in performing the audit.

### Management Representations

We have requested certain representations from management that are included in the management representation letter.

### Industry updates

There are several new regulations that impact the nonprofit sector that we want you to be aware of. Some relate to changes that should be implemented as soon as possible and others that are still in the draft stage. To summarize:

### **Uniform Guidance on Federal Awards is in effect for 2015**

In late December 2013, the U.S. Office of Management and Budget (OMB) took a major step to issuing its long awaited final grant reform rules in a document entitled Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards. Final regulations were posted in the Federal Register on December 26, 2013. Many changes were made to cost principles and **they are effective for new federal awards issued in 2015**. The changes to the audit requirements are effective for those entities with a year end of December 31, 2015 and later. It is possible that nonprofit organizations can have grants that follow the older rules and the newer rules, in the same fiscal year. That makes understanding the new rules that much more important. The following describes some of the key areas of change:

#### *Streamlining of Related Circulars and Guidance*

The eight existing OMB Circulars have been combined into one document including Circular A-133 and the various Cost Principles. Additionally, the cost principles have been incorporated into a single document with limited variations by type of entity. This new document supersedes the following OMB Circulars:

- A-21, Cost Principles for Educational Institutions
- A-87, Cost Principles for State, Local, and Indian Tribal Governments
- A-89, Federal Domestic Assistance Program Information
- A-102, Awards and Cooperative Agreements with State and Local Governments

- A-110, Uniform Administrative Requirements for Awards and Other Agreements with Institutions of Higher Education, Hospitals, and Other Nonprofit Organizations
- A-122, Cost Principles for Non-Profit Organizations
- A-133, Audits of States, Local Governments and Non-Profit Organizations
- It will also supersede those sections of A-50, Audit Follow-Up, related to Single Audits

#### *Procurement*

We are finding this to be the most difficult and time consuming new process to implement. That is because the guidance on procurement is more consistent with the older regulations that applied to states and local governments rather than nonprofit organizations. Therefore, major changes have been made to how nonprofits procure goods and services:

There are several new methods that must be followed:

- Micro purchases which applies to goods and services less than \$3,000 and does not require competitive quotes but does require attempts at equitable distribution to avoid all purchases from the same vendor.
- Small purchases which apply to goods and services below the Simplified Acquisition Threshold (\$150,000) and requires multiple rate quotes from qualified sources.
- Sealed bids when services are above the \$150,000 level and which are most applicable for construction.
- Competitive proposals to be used when sealed bids are not practical.

Documentation which includes the detail of the purchase transaction must be maintained that includes support of the procurement method used and the basis of the award and price.

#### *Indirect Costs*

A *de minimus* 10% rate is allowed for those organizations that do not have a negotiated rate with the federal government or cognizant agency. This applies to sub-recipients as well.

#### *Time and Effort Reporting*

A number of changes are included in the documents which provides for more flexibility for entities in how they document time and effort. The key is having a strong system of internal control to capture how employees perform tasks related to grants on an after-the fact basis. Budgets are still not permitted, although guidance has loosened to allow interim costs to be charged based on budgets if it is representative of best estimates and can be adjusted to reflect actual results periodically. Current systems that meet the old requirements of OMB Circular A-122 (timesheets) will still be permitted.

Auditors will make note of the following changes to the single audit:

#### *Single Audit Threshold for Audit Increased to \$750,000*

Entities that expend less than \$750,000 in federal awards would not be required to undergo a single audit. This would represent an increase from the current \$500,000 threshold for single audits which was established in 2003. Any entity that falls below the \$750,000 threshold must make records available for review or audit by appropriate officials of the Federal agency, pass-through entity, and the Government Accountability Office.



**For more information on this, please view an archived version of a webinar that we did on this topic that is saved on our website.**

### **FASB issues exposure draft**

The Financial Accounting Standards Board (FASB) has issued an exposure draft that is being touted as a once in a generation project. This statement, once passed, will have a major impact on the display of financial statements for all nonprofit organizations. As with all new FASB statements, this is still in the public comment period and there will be changes to the final regulation, however the following summary represents some of the objectives of the new regulations:

- The streamlining of net assets classes to two; net assets that contain donor restrictions and net assets that do not contain donor restrictions. This will have a major impact on organizations with endowments as the financial statements will no longer have a permanently restricted class of net assets. There will also be a change to how underwater endowments will be treated.
- Making financial statements more comparable between different entities, a defined measure of operations will become standard.
- Disclosures on liquidity will become more prominent, which will include allowing management to self define what they consider to be assets available for expenditure.
- The direct method of reporting cash flows will be required to enhance the understanding and usability of this statement. This should help the reader by having the statement of cash flows be more intuitive and provide more transparency on liquidity.
- Creating a 4 step process to help determine when revenue should be recognized that is based on the deliverable of goods and services. This would apply to membership, tuition, program fees, but would exclude contributions.

We will keep you notified of when these new changes become finalized.

### **Internal Controls - COSO Updates Integrated Framework**

This new framework, which is recognized as the leading guidance for designing, implementing, and conducting a system of internal control, was updated to ensure its continued relevance. Nonprofits should begin utilizing the new framework in evaluating the effectiveness of its internal controls because this is an area their auditors will be focusing on.

### **Board Governance**

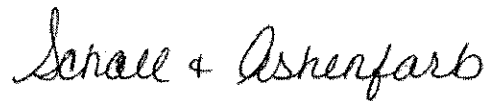
- Overhead Myth - The three major watchdog groups have put out a call to action for donors to focus more on what a charity has done to meet its mission as opposed to how much money it spends on programmatic activity. We are seeing a shift of donations that are tied to achievement of milestones as opposed to funding general, non-specific areas.
- Nonprofit Revitalization Act - Became effective in 2014 and put what had previously been considered best practice into the nonprofit corporate law. The primary areas impact conflicts of interest (having policies that outline how a charity should review and approve transactions with board members, officers, their families and businesses and making sure that these transactions are in the best interest of the charity), monitoring of the independent audit,

including establishing an audit committee of members of the board of directors (or having the full board of directors itself) that meet with the independent auditors regularly, establish whistleblower policies to provide employees with a method to report to the board any suspected fraud within the organization, and other administrative matters.

Independence Issues

Schall & Ashenfarb, CPA's, LLC is not aware of any relationships that our firm, or any employees thereof, has with the School or any of its board members that, in our professional judgment may impair our independence.

This information is intended solely for the use of the Board of Trustees of the Brooklyn Charter School.



Schall & Ashenfarb  
Certified Public Accountants, LLC

October 19, 2015

## EXHIBIT 1



**SCHALL** Certified Public Accountants LLC  
**& ASHENFARB**

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

May 18, 2015

Mr. Michael Catlyn, Member of Board of Directors  
And To Those Charged With Governance  
The Brooklyn Charter School  
545 Willoughby Avenue  
Brooklyn, NY 11206

Dear Mr. Catlyn:

We are pleased to confirm our understanding of the services we are to provide for The Brooklyn Charter School for the year ended June 30, 2015.

We will audit the statement of financial position of The Brooklyn Charter School as of June 30, 2015, and the related statements of activities, functional expenses, and cash flows for the year then ended and the notes to the financial statements.

### **Audit Objectives**

The objective of our audit is the expression of an opinion about whether your financial statements are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit will be conducted in accordance with U.S. generally accepted auditing standards and the standards for financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and will include tests of your accounting records and other procedures we consider necessary to enable us to express such an opinion. If our opinion on the financial statements is other than unqualified, we will discuss the reasons with management in advance. If, for any reason, we are unable to complete the audit or are unable to form or have not formed an opinion, we may decline to express an opinion or to issue a report as a result of this engagement.

We will also provide a report (which does not include an opinion) on internal control related to the financial statements and compliance with the provisions of applicable laws, regulations, contracts, agreements, and grants, noncompliance with which could have a material effect on the financial statements as required by *Government Auditing Standards*. The report on internal control and compliance will include a statement that the report is intended solely for the information and use of the audit committee, management, and specific legislative or regulatory bodies and is not intended to be and should not be used by anyone other than these specified parties. If during our audit we become aware that The Brooklyn Charter School is subject to an audit requirement that is not encompassed in the terms of this engagement, we will communicate to management and those charged with governance that an audit in accordance with U.S. generally accepted auditing

307 Fifth Avenue, 15th Floor  
New York, New York 10016  
Tel: (212) 268-2800 Fax: (212) 268-2805  
[www.schallandashenfarb.com](http://www.schallandashenfarb.com)

## EXHIBIT 1

standards and the standards for financial audits contained in *Government Auditing Standards* may not satisfy the relevant legal, regulatory, or contractual requirements.

### Management Responsibilities

You are responsible for making all management decisions and performing all management functions; for designating an individual with suitable skill, knowledge, or experience to oversee the financial statement preparation and tax services and any other nonattest services we provide; and for evaluating the adequacy and results of those services and accepting responsibility for them.

**Management is responsible** for establishing and maintaining internal controls, including monitoring ongoing activities; for the selection and application of accounting principles; and for the fair presentation in the financial statements of financial position, changes in net assets, and cash flows in conformity with U. S. generally accepted accounting principles. **Management is responsible** for the basic financial statements and all accompanying information as well as all representations contained therein. **A partner will present the results of our audit to your audit committee or your board of directors (in person or by teleconference).**

**Management is responsible** for management decisions and functions. In accordance with *Government Auditing Standards*, you will be required to review and approve those financial statements prior to their issuance and have a responsibility to be in a position in fact and appearance to make an informed judgment on those financial statements. Further, you are required to designate a qualified management-level individual to be responsible and accountable for overseeing our services.

**Management is responsible** for making all financial records and related information available to us and for the accuracy and completeness of that information. **Management is also responsible** for providing us with (1) access to all information of which you are aware that is relevant to the preparation of the financial statements, (2) additional information that we may request for the purpose of the audit, and (3) unrestricted access to persons within the organization from whom we determine it necessary to obtain audit evidence. **Management's responsibilities include** adjusting the financial statements to correct material misstatements and for confirming to us in the management representation letter that the effects of any uncorrected misstatements aggregated by us during the current engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

If you use a financial consultant to review your books, prepare journal entries or prepare financial statements we will request certain representation from them as well. **Because of the importance of management's representations to an effective audit, failure of management or their financial consultants to provide representations to us in the form of a representation letter will cause our auditors opinion to be a "disclaimer" for a scope limitation.**

**You are responsible** for the design and implementation of programs and controls to prevent and detect fraud, and for informing us about all known or suspected fraud affecting the organization involving (1) management, (2) employees who have significant roles in internal control, and (3) others where the fraud or illegal acts could have a material effect on the financial statements. **Your responsibilities include** informing us of your knowledge of any allegations of fraud or suspected fraud affecting the Organization received in communications from employees, former employees, grantors, regulators, or others. In addition, **you are responsible** for identifying and ensuring that the Organization complies with applicable laws, regulations, contracts, agreements, and grants and

## EXHIBIT 1

for taking timely and appropriate steps to remedy any fraud, illegal acts, violations of contracts or grant agreements, or abuse that we may report.

**Management is responsible** for establishment and maintenance for tracking the status of audit findings and recommendations. **Management is also responsible** for identifying for us previous audits or other engagements or studies related to the objectives discussed in the Audit Objectives section of this letter. This responsibility includes relaying to us corrective actions taken to address significant findings and recommendations resulting from those audits or other engagements or studies. **The Organization is also responsible for providing** management's views on our current findings, conclusions, and recommendations, as well as your planned corrective actions, and the timing and format related thereto.

### **Audit Procedures—General**

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit will involve judgment about the number of transactions to be examined and the areas to be tested. An audit also includes evaluating the appropriateness of accounting policies used and the presentation of the financial statements. We will plan and perform the audit to obtain reasonable rather than absolute assurance about whether the financial statements are free of material misstatement, whether from (1) errors, (2) fraudulent financial reporting, (3) misappropriation of assets, or (4) violations of laws or governmental regulations that are attributable to The Brooklyn Charter School or to acts by management or employees acting on behalf of The Brooklyn Charter School. Because the determination of abuse is subjective, *Government Auditing Standards* do not expect auditors to provide reasonable assurance of detecting abuse.

Because an audit is designed to provide reasonable, but not absolute, assurance and because **we will not perform a detailed examination of all transactions**, there is a risk that material misstatements may exist and not be detected by us, even though the audit is properly planned and performed in accordance with U.S. generally accepted auditing standards and *Government Auditing Standards*. In addition, an audit is not designed to detect immaterial misstatements or violations of laws or governmental regulations that do not have a direct and material effect on the financial statements. However, we will inform you of any material errors and any fraudulent financial reporting or misappropriation of assets that come to our attention. We will also inform you of any violations of laws or governmental regulations that come to our attention, unless clearly inconsequential, and of any material abuse that comes to our attention. Our responsibility as auditors' is limited to the period covered by our audit and does not extend to any later periods for which we are not engaged as auditors.

Our procedures will include tests of documentary evidence supporting the transactions recorded in the accounts, tests of the physical existence of inventories, and direct confirmation of receivables and certain assets and liabilities by correspondence with selected funding sources, creditors, and financial institutions. We will also request written representations from The Brooklyn Charter School's attorneys as part of the engagement, and they may bill The Brooklyn Charter School for responding to this inquiry. At the conclusion of our audit, we will require certain written representations from management about the financial statements and related matters.

## EXHIBIT 1

### **Audit Procedures—Internal Control**

Our audit will include obtaining an understanding of the entity and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing, and extent of further audit procedures. Tests of controls may be performed to test the effectiveness of certain controls that we consider relevant to preventing and detecting errors and fraud that are material to the financial statements and to preventing and detecting misstatements resulting from illegal acts and other noncompliance matters that have a direct and material effect on the financial statements. Our tests, if performed, will be less in scope than would be necessary to render an opinion on internal control and, accordingly, no opinion will be expressed in our report on internal control issued pursuant to *Government Auditing Standards*.

An audit is not designed to provide assurance on internal control or to identify significant deficiencies or material weaknesses. However, during the audit, we will communicate to management and those charged with governance internal control related matters that are required to be communicated under professional standards and *Government Auditing Standards*.

### **Audit Procedures—Compliance**

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we will perform tests of The Brooklyn Charter School's compliance with the provisions of applicable laws, regulations, contracts, agreements, and grants. However, the objective of our audit will not be to provide an opinion on overall compliance and we will not express such an opinion in our report on compliance issued pursuant to *Government Auditing Standards*.

### **Other Services**

We are always available to meet with you and other executives at various times throughout the year to discuss current business, operational, accounting, and auditing matters affecting your Organization. Whenever you feel such meetings are desirable, please let us know. We are also prepared to provide services to assist you in any of these areas. We will also be pleased, at your request, to attend your board of directors' meetings.

In addition to the audit services described above, you have requested that we provide the following non-attest services:

We will assist the Organization in preparing the financial statements and related footnote disclosures based on information in the trial balance and other information that comes to our attention during the course of the our engagement. It is critical that you have an understanding and agree with all information in the financial statements, since they are the entity's, and not the auditors'. We agree to review the financial statements with management in sufficient detail to enable you to gain this required understanding and agreement.

We will prepare the tax returns as outlined separately below.

### **Audit Administration and Other**

We understand that your employees will prepare all cash, accounts receivable, and other confirmations we request and will locate any documents selected by us for testing. Certain financial

## EXHIBIT 1

institutions may charge us for this and the cost will be passed on to you. We will send a template in Word format for use with confirmation requests.

David Ashenfarb is the engagement partner and is responsible for supervising the engagement and signing the reports or authorizing another individual to sign it. Please contact us to discuss a date that we can begin the audit and outline a plan for delivery of draft and final documents to you. Our audit engagement ends on delivery of financial reports; however, we are still available for routine conversations without charge until either party has officially terminated the relationship. Any follow-up services that might be required will be considered a new engagement.

We will provide copies of our reports to you; however, management is responsible for distribution of the reports and the financial statements. Unless restricted by law or regulation, or containing privileged and confidential information, copies of our reports are to be made available for public inspection.

The audit documentation for this engagement is the property of Schall & Ashenfarb, CPAs, LLC and constitutes confidential information. However, pursuant to authority given by law or regulation, we may be requested to make certain audit documentation available to your funding source or its designee, a federal agency providing direct or indirect funding, or the U.S. Government Accountability Office for purposes of a quality review of the audit, to resolve audit findings, or to carry out oversight responsibilities. We will notify you of any such request. If requested, access to such audit documentation will be provided under the supervision of Schall & Ashenfarb's personnel. Furthermore, upon request, we may provide copies of selected audit documentation to the Government Regulator. The Regulator may intend, or decide, to distribute the copies or information contained therein to others, including other governmental agencies.

The audit documentation for this engagement will be retained for a minimum of five years after the report release date or for any additional period requested by the Government Regulator. If we are aware that a federal awarding agency or auditee is contesting an audit finding, we will contact the party(ies) contesting the audit finding for guidance prior to destroying the audit documentation.

### **E-mail Communication**

In connection with this engagement, we may communicate with you or others via e-mail. As e-mails can be intercepted, disclosed, used, and/or otherwise communicated by an unintended third party, or may not be delivered to each of the parties to whom they are directed, we cannot ensure that e-mails from us will be properly delivered and read only by the addressee. Therefore, we disclaim and waive any liability for interception or unintentional disclosure of e-mail transmissions, or for the unauthorized use or failed delivery of e-mails transmitted by us in connection with the performance of this engagement. In that regard, you agree that we shall have no liability for any loss or damage arising from the use of e-mail, including any punitive, consequential, incidental, direct, indirect, or special damages, such as loss of revenues or anticipated profits, or disclosure of confidential information.

### **Posting of Audit Report and Financial Statements on Your Web Site**

You agree that, if you plan to post an electronic version of the financial statements and audit report on your Web site, you will ensure that there are no differences in content between the electronic version of the financial statements and audit report on your Web site and the signed version of the financial statements and audit reports provided to management by us. You also agree to indemnify

## EXHIBIT 1

us from any and all claims that may arise from any differences between the electronic and signed copies.

### **Taxes**

As part of our engagement, we will also prepare the federal information return (Form 990). In order to prepare complete and accurate returns, we will require you to provide certain information about board governance policies, which may also include, but not be limited to, providing salary amounts for employees greater than \$100,000, contractors for professional services in excess of the same amount, names, addresses and dollar amounts of large contributors in excess of certain calculated amounts and other matters that are not generally covered during the audit. If the information is not provided to us timely, you will not hold us responsible for any penalties incurred for incomplete information.

We will send you an authorization form so that we can file your federal taxes electronically. If we do not receive the form back, or you prefer not to file electronically, we will send you hard copies to file. We will also send you electronic copies for your records unless we receive a specific request for hard copies.

### **Fee**

Our fee will remain at \$19,500. At the completion of the audit, we will provide electronic versions of the audited financial statements, management letter (if applicable) and communications with those charged with governance and 10 copies of the final report without charge. Any additional copies will cost \$5 per report. If applicable, we will charge you other out of pocket costs such as postage for confirmations, fees incurred for certain electronic bank confirmations and setting up conference calls through our phone center, etc. Our fee will be billed monthly and is payable upon receipt. Invoices that are unpaid 30 days past the invoice date are deemed delinquent and we reserve the right to charge interest at 1% per month (not to exceed the maximum amount permitted by law.) In the event any collection action is required to collect unpaid balances due to us, you agree to reimburse us for all our costs of collection, including without limitation attorney's fees.

A payment is required upon the signing of this letter in the amount of \$4,500. If we terminate our services for nonpayment, our engagement will be deemed to have been completed upon written notification of termination, even if we have not completed our report. You will be obligated to compensate us for all time expended and to reimburse us for all out-of-pocket expenditures through the date of termination.

If the School receives CSP funding, the grantor may require a separate "agreed upon procedures report". The terms of this engagement do not include additional services required to prepare a separate agreed upon procedures report. If such services are required, a separate agreement outlining the scope of work and related fees will be made at that time.

### **Independence**

Professional and certain regulatory standards require us to be independent, in both fact and appearance, with respect to your Organization in the performance of our services. Any discussions that you have with personnel of our Firm regarding employment could pose a threat to our independence. Therefore, we request that you inform us prior to any such discussions so that we can implement appropriate safeguards to maintain our independence.



## EXHIBIT 1

In order for us to remain independent, professional standards require us to maintain certain respective roles and relationships with you with respect to the non-attest services described above. Prior to performing such services in conjunction with our audit, management must acknowledge its acceptance of certain responsibilities.

We will not perform management functions or make management decisions on behalf of your Organization. However, we will provide advice and recommendations to assist management of the Organization in performing its functions and fulfilling its responsibilities.

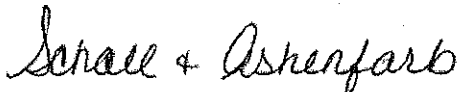
We, in our professional judgment, reserve the right to refuse to perform any procedure or take any action that could be construed as making management decisions or performing management functions. The Organization must make all decisions with regard to our recommendations. By signing this Agreement, you acknowledge your acceptance of these responsibilities.

*Government Auditing Standards* require that we provide you with a copy of our most recent external peer review report and any letter of comment, and any subsequent peer review reports and letters of comment received during the period of the contract. Our 2014 peer review report accompanies this letter.

We have attached a brief questionnaire that will help us plan the timing of the engagement to ensure you receive documents in your desired time frame. Please take a moment to fill that out.

We appreciate the opportunity to be of service to The Brooklyn Charter School and believe this letter accurately summarizes the significant terms of our engagement. If you have any questions, please let us know. If you agree with the terms of our engagement as described in this letter, please sign the enclosed copy and return it to us along with the questionnaire referred to above.

Very truly yours,



Schall & Ashenfarb  
Certified Public Accountants, LLC

EXHIBIT 1

RESPONSE:

This letter correctly sets forth the understanding of The Brooklyn Charter School for the year ended June 30, 2015.

Michael A. Russo  
Officer signature

VICE CHAIR BOT  
Title

6/10/2015  
Date

# Lilling & Company LLP

Certified Public Accountants

## System Review Report

March 10, 2014

To the Partners of Schall & Ashenfarb CPAs, LLC and the Peer Review Committee of the New York Society of CPAs

We have reviewed the system of quality control for the auditing practice of Schall & Ashenfarb CPAs, LLC (the firm) in effect for the year ended August 31, 2013. Our peer review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants. As a part of our peer review, we considered reviews by regulatory entities, if applicable, in determining the nature and extent of our procedures. The firm is responsible for designing a system of quality control and complying with it to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Our responsibility is to express an opinion on the design of the system of quality control and the firm's compliance therewith based on our review. The nature, objectives, scope, limitations of, and the procedures performed in a System Review are described in the standards at [www.aicpa.org/prsummary](http://www.aicpa.org/prsummary).

As required by the standards, engagements selected for review included engagements performed under *Government Auditing Standards* and an audit of an employee benefit plan.

In our opinion, the system of quality control for the auditing practice of Schall & Ashenfarb CPAs, LLC in effect for the year ended August 31, 2013, has been suitably designed and complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Firms can receive a rating of *pass*, *pass with deficiency(ies)*, or *fail*. Schall & Ashenfarb CPAs, LLC has received a peer review rating of *pass*.



LILLING & COMPANY LLP



## EXHIBIT 2

545 Willoughby Avenue, 3rd Fl. Brooklyn, NY 11206 (718)302-2085 FAX (718)302-2426

---

**Omigbade Escayg**  
*Head of School/Director*

**Mary Kate Boesch**  
*Assistant Principal*

**Karma Suttles**  
*Assistant Principal*

October 19, 2015

Schall&Ashenfarb, CPA's, LLC  
307 Fifth Avenue, 15<sup>th</sup> Floor  
New York, NY 10016

This representation letter is provided in connection with your audit of the financial statements of Brooklyn Charter School, which comprise the statements of financial position as of June 30, 2015, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, for the purpose of expressing an opinion as to whether the financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States (U.S. GAAP).

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement. An omission or misstatement that is monetarily small in amount could be considered material as a result of qualitative factors.

We confirm, to the best of our knowledge and belief, as of October 19, 2015, the following representations made to you during your audit.

### **Financial Statements**

1. We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated May 18, 2015, including our responsibility for the preparation and fair presentation of the financial statements.
2. The financial statements referred to above are fairly presented in conformity with U.S. GAAP.
3. We acknowledge our responsibility for 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.
4. We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
5. Significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable. This specifically includes the methodology for the statement of functional expenses.

## EXHIBIT 2

6. There have been no related party relationships or transactions that are required to be accounted for or disclosed in accordance with the requirements of U.S. GAAP.
7. There are no events subsequent to the date of the financial statements which requires adjustment to or disclosure in the financial statements to be in accordance with the requirements of U.S. GAAP.
8. There were no uncorrected misstatements that are immaterial, both individually and in the aggregate, to the financial statements as a whole.
9. There were no known actual or possible litigation, claims, and assessments required to be accounted for and disclosed in accordance with U.S. GAAP.
10. There was one material concentration required to be disclosed in accordance with U.S. GAAP related to the New York City Department of Education funding.
11. There were no guarantees, either written or oral, under which the organization is contingently liable, that are required to be recorded or disclosed in accordance with U.S. GAAP.

### **Non Attest Services**

In regard to the non-attest services provided by you, we have:

1. Assumed all management responsibilities.
2. Designated an individual with suitable skill, knowledge, or experience to oversee the services.
3. Evaluated the adequacy and results of the services performed.
4. Accepted responsibility for the results of the services.

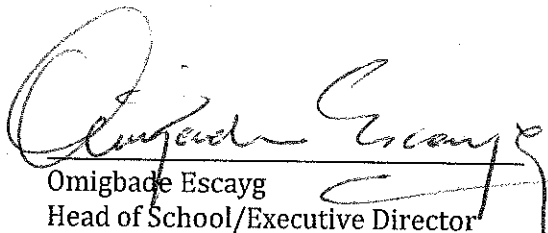
As part of your audit, you prepared the draft financial statements and related notes. We have designated an individual with suitable skill, knowledge, or experience to oversee your services and have assumed all management responsibilities. We have reviewed, approved, and accepted responsibility for those financial statements and related notes.

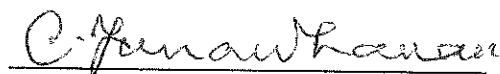
### **Information Provided**

1. We have provided you with:
  - a) Access to all information, of which we are aware, that is relevant to the preparation and fair presentation of the financial statements, such as records, documentation, and other matters.
  - b) Additional information that you have requested from us for the purpose of the audit.
  - c) Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
2. All material transactions have been recorded in the accounting records and are reflected in the financial statements.
3. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

## EXHIBIT 2

4. We have no knowledge of any fraud or suspected fraud that affects the organization and involves:
  - a) Management,
  - b) Employees who have significant roles in internal control, or
  - c) Others where the fraud could have a material effect on the financial statements.
5. We have no knowledge of any allegations of fraud or suspected fraud affecting the organization's financial statements communicated by employees, former employees, grantors, regulators, or others.
6. We have no knowledge of any instances of noncompliance or suspected noncompliance with laws and regulations whose effects should be considered when preparing financial statements.
7. We are not aware of any pending or threatening litigation, claims, or assessments or unasserted claims or assessments that are required to be accrued or disclosed in the financial statements in accordance with U.S. GAAP.
8. We have disclosed to you the identity of the organization's related parties and all the related party relationships and transactions of which we are aware.
9. The organization has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.
10. We are responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to us; and we have identified and disclosed to you all laws, regulations and provisions of contracts and grant agreements that we believe have a direct and material effect on the determination of financial statement amounts or other financial data significant to the audit objectives.
11. Brooklyn Charter School is an exempt organization under Section 501(c)(3) of the Internal Revenue Code. Any activities of which we are aware that would jeopardize the Organization's tax-exempt status, and all activities subject to tax on unrelated business income or excise or other tax, have been disclosed to you and appropriately reported. All required filings with tax authorities are up-to-date.

  
Omigbade Escayg  
Head of School/Executive Director

  
Colathur Janardhanan  
Business Manager