



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

Audited Financial Statements In Accordance  
With Government Auditing Standards

June 30, 2019

# BROOKLYN CHARTER SCHOOL

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## **INDEPENDENT AUDITOR'S 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, 2019, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

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

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

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the organization's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the organization's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Brooklyn Charter School as of June 30, 2019, 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.

***Emphasis of Matter***

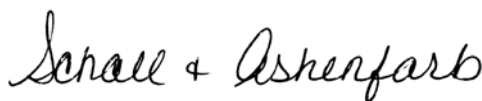
As discussed in Note 2 to the financial statements, the School adopted Accounting Standards Update (“ASU”) No. 2016-14, Not-for-Profit Entities (Topic 958): *Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

***Report on Summarized Comparative Information***

We have previously audited the School’s 2018 financial statements, and we expressed a qualified audit opinion on those audited financial statements in our report dated October 26, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2018 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 25, 2019, on our consideration of the School’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the School’s internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School’s internal control over financial reporting and compliance.

  
Schall & Ashenfarb  
Certified Public Accountants, LLC

October 25, 2019

**BROOKLYN CHARTER SCHOOL**  
**STATEMENT OF FINANCIAL POSITION**  
**AT JUNE 30, 2019**  
(With comparative totals at June 30, 2018)

	6/30/19	6/30/18 *
<b>Assets</b>		
Cash and cash equivalents	\$96,691	\$280,010
Investments (Note 3)	1,704,356	1,831,462
Grants receivable - New York City Department of Education (Note 4)	10,038	13,418
Government grants receivable	42,625	68,636
Contributions receivable	15,000	0
Prepaid expenses and other receivables	10,084	23,554
Employee loans receivable (Note 5)	10,860	15,767
Restricted cash (Note 6)	75,000	75,000
Fixed assets, net (Note 7)	55,590	63,540
 Total assets	 \$2,020,244	 \$2,371,387
<b>Liabilities and Net Assets</b>		
Liabilities:		
Accounts payable and accrued expenses	\$147,466	\$172,262
Accrued payroll and payroll related liabilities	443,339	440,561
Total liabilities	590,805	612,823
Net assets:		
Without donor restrictions	988,836	1,338,586
With donor restrictions (Note 8)	440,603	419,978
Total net assets	1,429,439	1,758,564
 Total liabilities and net assets	 \$2,020,244	 \$2,371,387

\* Reclassified for comparative purposes

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

**BROOKLYN CHARTER SCHOOL**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2019**  
(With comparative totals for the year ended June 30, 2018)

	Without Donor Restrictions	With Donor Restrictions	Total 6/30/19	Total 6/30/18*
Public support and revenue:				
Public school district: (Note 4)				
Revenue - resident student enrollment	\$3,135,226		\$3,135,226	\$2,835,380
Revenue - students with special education services	320,899		320,899	169,925
Total public school district	<u>3,456,125</u>	<u>0</u>	<u>3,456,125</u>	<u>3,005,305</u>
Government grants	210,100		210,100	214,183
Contributions	65,949	10,000	75,949	90,182
In-kind contributions	1,030,969		1,030,969	876,100
Interest and dividends	40,838	7,483	48,321	55,365
Other income	54,479		54,479	45,383
Net assets released from restrictions (Note 8)	<u>8,772</u>	<u>(8,772)</u>	<u>0</u>	<u>0</u>
Total public support and revenue	<u>4,867,232</u>	<u>8,711</u>	<u>4,875,943</u>	<u>4,286,518</u>
Expenses:				
Program services:				
Instructional support	4,237,184		4,237,184	4,146,969
Supporting services:				
Management and general	<u>1,020,782</u>		<u>1,020,782</u>	<u>887,260</u>
Total expenses	<u>5,257,966</u>	<u>0</u>	<u>5,257,966</u>	<u>5,034,229</u>
Change in net assets from operations	(390,734)	8,711	(382,023)	(747,711)
Non operating activity:				
Decrease of investment in The Wedding Garden, Inc. (Note 1)			0	(96,252)
Net realized and unrealized gain on investments	<u>40,984</u>	<u>11,914</u>	<u>52,898</u>	<u>46,834</u>
Change in net assets	(349,750)	20,625	(329,125)	(797,129)
Net assets - beginning of year	<u>1,338,586</u>	<u>419,978</u>	<u>1,758,564</u>	<u>2,555,693</u>
Net assets - end of year	<u><u>\$988,836</u></u>	<u><u>\$440,603</u></u>	<u><u>\$1,429,439</u></u>	<u><u>\$1,758,564</u></u>

\* Reclassified for comparative purposes

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

**BROOKLYN CHARTER SCHOOL**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**FOR THE YEAR ENDED JUNE 30, 2019**  
(With comparative totals for the year ended June 30, 2018)

	<u>Program Services</u>	<u>Supporting Services</u>	<u>Total</u>	<u>Total</u>
	<u>Instructional Support</u>	<u>Management and General</u>	<u>Expenses 6/30/19</u>	<u>Expenses 6/30/18*</u>
Salaries	\$2,521,412	\$529,068	\$3,050,480	\$2,866,176
Payroll taxes and employee benefits	624,428	131,025	755,453	817,314
Total personnel costs	<u>3,145,840</u>	<u>660,093</u>	<u>3,805,933</u>	<u>3,683,490</u>
Professional development	3,998	29,542	33,540	25,145
Professional fees	44,290	49,488	93,778	64,238
Student and staff recruitment	5,224	13,088	18,312	21,164
Supplies and materials	60,835	20,620	81,455	108,439
Office expense	12,967	25,534	38,501	24,586
Student services	49,348		49,348	68,136
Insurance	37,231	21,063	58,294	91,756
Technology		11,581	11,581	10,608
Occupancy and facility costs (in-kind)	852,160	178,809	1,030,969	876,100
Depreciation	25,128	5,273	30,401	31,481
Board expenses		4,615	4,615	15,912
Other	163	1,076	1,239	13,174
Total other than personnel costs	<u>1,091,344</u>	<u>360,689</u>	<u>1,452,033</u>	<u>1,350,739</u>
Total expenses	<u><u>\$4,237,184</u></u>	<u><u>\$1,020,782</u></u>	<u><u>\$5,257,966</u></u>	<u><u>\$5,034,229</u></u>

\* Reclassified for comparative purposes

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

**BROOKLYN CHARTER SCHOOL  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2019**

(With comparative totals for the year ended June 30, 2018)

	<u>6/30/19</u>	<u>6/30/18 *</u>
Cash flows from operating activities:		
Change in net assets	(\$329,125)	(\$797,129)
Adjustments to reconcile change in net assets to net cash used for operating activities:		
Net realized and unrealized gain on investments	(52,898)	(46,834)
Decrease of investment in The Wedding Garden, Inc.	0	96,252
Depreciation	30,401	31,481
Changes in assets and liabilities:		
Grant receivable - New York City Department of Education	3,380	(13,418)
Government grants receivable	26,011	108,238
Contributions receivable	(15,000)	60,155
Prepaid expenses and other receivables	13,470	60,454
Employee loans receivable	4,907	8,675
Accounts payable and accrued expenses	(24,796)	64,547
Accrued payroll and payroll related liabilities	2,778	(39,834)
Advance payable - New York City Department of Education	0	(5,064)
Total adjustments	<u>(11,747)</u>	<u>324,652</u>
Net cash used for operating activities	<u>(340,872)</u>	<u>(472,477)</u>
 Cash flows from investing activities:		
Purchase of furniture and equipment	(22,451)	(4,469)
Purchase of investments	(616,365)	(73,521)
Proceeds from sales of investments	796,369	758,942
Net cash provided by investing activities	<u>157,553</u>	<u>680,952</u>
 Net (decrease)/increase in cash and cash equivalents	(183,319)	208,475
 Cash and cash equivalents - beginning of year	<u>280,010</u>	<u>71,535</u>
 Cash and cash equivalents - end of year	<u>\$96,691</u>	<u>\$280,010</u>
 Supplemental disclosures:		
Interest and taxes paid	<u>\$0</u>	<u>\$0</u>
Noncash contributions	<u>\$26,057</u>	<u>\$0</u>

\* Reclassified for comparative purposes

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



**BROOKLYN CHARTER SCHOOL  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019**

**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 Board of Regents 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 2018-2019 fiscal year with an average enrollment of approximately 205 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 State of New York, for and on behalf of the State Education Department, extended the provisional charter up through and including June 30, 2016. On February 24, 2016, the Board of Regents granted an extension of the Charter up through and including June 30, 2019.

The School has been notified by the Internal Revenue Service that it is a not-for-profit organization exempt from Federal income tax under Section 501(c)(3) of the Internal Revenue Code and has not been determined to be 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. During 2018 WG has taken initial steps to liquidate itself, therefore the investment is not considered to have any value as of June 30, 2018. The statement of activities for the year ended June 30, 2018 reflects a write-off of this investment.

**Note 2 - Significant Accounting Policies**

a. Basis of Accounting

The financial statements of the School have been prepared on the accrual basis of accounting, which is the method of recognizing revenue and expenses when earned or incurred regardless of when cash is received or paid.

Effective January 1, 2018, the School adopted the requirements of the Financial Accounting Standards Board’s Accounting Standards Update No. 2016-14 – Not-for-Profit Entities (Topic 958): *Presentation of Financial Statements of Not-for-Profit Entities* (ASU 2016-14). This standard addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return between not-for-profit entities. A key change required by ASU 2016-14 is the net asset classes used in these financial statements. Amounts previously reported as unrestricted net assets are now reported as net assets without

donor restrictions and amounts previously reported as temporarily restricted net assets and permanently restricted net assets are now reported as net assets with donor restrictions. A footnote on liquidity has also been added (Note 13). Amounts previously reported as investment expense on the statement of functional expenses are now included in investment return on the statement of activities. The changes required by the update have been applied retrospectively to all periods presented.

b. Basis of Presentation

The accompanying financial statements have been prepared using the accrual basis of accounting, which is the process of recognizing revenue and expenses when earned or incurred rather than received or paid.

Not-for-profit organizations report information regarding its financial position and activities according to specific classes of net assets, as follows:

- *Net Assets Without Donor Restrictions* – accounts for activity without donor-imposed restrictions.
- *Net Assets With Donor Restrictions* – relates to activity based on specific donor restrictions that are expected to be satisfied by the passage of time or performance of activities.

c. 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.

All government grants have been recognized as income when earned, either based on performance of certain milestones or by incurring expenses that can be reimbursed under the terms of the grant agreement. The difference between cash received and revenue recognized is reflected as government grants receivable or refundable advances.

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 the class of net assets with donor restrictions.

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.

d. Cash and Cash Equivalents

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

e. 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.

f. Fixed Assets

Fixed assets are stated at cost or fair value at the date of the 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 is computed using the straight-line method over the estimated useful life of each asset, which generally ranges 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 in-kind 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. Such allocations are determined by management on an equitable basis.

The following expenses were allocated using time and effort as the basis:

- Salaries
- Employee benefits and payroll taxes
- Office expenses
- Insurance
- Rent and utilities
- Depreciation

Certain program expenses have been allocated between Regular Education and Special Education based on student FTE rates. All other expenses have been charged directly to the applicable program or supporting services.

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, 2018, 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, 2016 and later are subject to examination by applicable taxing authorities.

l. New Accounting Pronouncement

The Financial Accounting Standards Board (FASB) issued an Accounting Standards Update (ASU) No. 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The ASU which becomes effective for the June 30, 2020 year, provides guidance on whether a receipt from a third-party resource provider should be accounted for as a contribution (nonreciprocal transaction) within the scope of Topic 958, Not-for-Profit Entities, or as an exchange (reciprocal) transaction.

In addition, FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers*. The ASU, which becomes effective for the June 30, 2020 year, focuses on a principle-based model. It highlights the identification of performance obligations of the contract, determining the price and allocating that price to the performance obligation so that revenue is recognized as each performance obligation is satisfied. This ASU does not apply to contributions.

The School is in the process of evaluating the impact these standards will have on future financial statements.

m. Subsequent Events

Management has evaluated for potential recognition and disclosure events subsequent to the date of the statement of financial position through October 25, 2019, 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 - 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:

	June 30, 2019			
	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Money markets	\$20,033	\$20,033	\$0	\$0
Equity mutual funds:				
U.S. large cap	615,414	615,414	0	0
EEFE equity	255,437	255,437	0	0
Japanese large cap	15,123	15,123	0	0
Global equity	70,834	70,834	0	0
Fixed income mutual funds:				
U.S. fixed income	603,058	603,058	0	0
Non-U.S. fixed income	<u>124,457</u>	<u>124,457</u>	<u>0</u>	<u>0</u>
Total	<u>\$1,704,356</u>	<u>\$1,704,356</u>	<u>\$0</u>	<u>\$0</u>

	June 30, 2018			
	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Money markets	\$32,734	\$32,734	\$0	\$0
Equity mutual funds:				
U.S. large cap	556,023	556,023	0	0
EEFE equity	308,079	308,079	0	0
Japanese large cap	28,228	28,228	0	0
Global equity	73,795	73,795	0	0
Fixed income mutual funds:				
U.S. fixed income	727,701	727,701	0	0
Non-U.S. fixed income	<u>104,902</u>	<u>104,902</u>	<u>0</u>	<u>0</u>
Total	<u>\$1,831,462</u>	<u>\$1,831,462</u>	<u>\$0</u>	<u>\$0</u>

Level 1 securities are valued at the closing price reported on the active market that they are traded on.

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 4 - Grants Receivable - New York City Department of Education**

	<u>6/30/19</u>	<u>6/30/18</u>
Beginning receivable/(advance payable)	\$13,418	(\$5,064)
Payments recovered	(13,418)	5,064
Funding based on allowable FTE's	3,456,125	3,005,305
Cash receipts	<u>(3,446,087)</u>	<u>(2,991,887)</u>
Ending grants receivable	<u>\$10,038</u>	<u>\$13,418</u>

**Note 5 - 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.

In June 2018, the School provided a loan to another employee in the form of a staff advance. This loan is set to be repaid in 26 installments, which corresponds to one full year of salary deductions.

**Note 6 - 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 7 - Fixed Assets**

Fixed assets consist of the following:

	<u>6/30/19</u>	<u>6/30/18</u>
Furniture and equipment	\$568,492	\$546,041
Less: accumulated depreciation	<u>(512,902)</u>	<u>(482,501)</u>
Furniture and equipment, net	<u>\$55,590</u>	<u>\$63,540</u>

**Note 8 - Net Assets With Donor Restrictions**

The following summarizes the activity of net assets with donor restrictions:

	<u>June 30, 2019</u>			
	Beginning Balance <u>7/1/18</u>	<u>Increases</u>	Released from <u>Restrictions</u>	Ending Balance <u>6/30/19</u>
W.E.A.L.T.H.Y. Program	\$7,946	\$0	\$0	\$7,946
Learning Partners Program	0	10,000	(8,772)	1,228
Endowment fund (See Note 9)	<u>412,032</u>	<u>19,397</u>	<u>0</u>	<u>431,429</u>
Total	<u>\$419,978</u>	<u>\$29,397</u>	<u>(\$8,772)</u>	<u>\$440,603</u>
	<u>June 30, 2018</u>			
	Beginning Balance <u>7/1/17</u>	<u>Increases</u>	Released from <u>Restrictions</u>	Ending Balance <u>6/30/18</u>
W.E.A.L.T.H.Y. Program	\$0	\$30,000	(\$22,054)	\$7,946
Endowment funds (See Note 9)	<u>396,913</u>	<u>15,119</u>	<u>0</u>	<u>412,032</u>
Total	<u>\$396,913</u>	<u>\$45,119</u>	<u>(\$22,054)</u>	<u>\$419,978</u>

## **Note 9 - Endowment Funds**

Included in the investment funds 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 donor-restricted endowment in perpetuity.

### *Interpretation of Relevant Law*

The School follows New York Prudent Management of Institutional Funds Act ("NYPMIFA"), which the board of directors has interpreted to require certain amounts to be retained in perpetuity. 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 donor-restricted in perpetuity (a) the original value of gifts donated to the endowment, (b) the original value of subsequent gifts to the endowment, and (c) accumulations to the 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, endowment earnings are classified as donor 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.

The board made no appropriations from the endowment during the years ended June 30, 2019 and 2018

### *Endowment Investment Policies*

Endowment assets were pooled with other 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, 2019 and 2018.

Changes in endowment net assets can be summarized as follows:

	<u>June 30, 2019</u>		
	<u>Endowment Corpus</u>	<u>Endowment Earnings</u>	<u>Total</u>
Endowment net assets, beginning of year	\$366,667	\$45,365	\$412,032
Investment income	0	7,483	7,483
Net realized/unrealized gain	<u>0</u>	<u>11,914</u>	<u>11,914</u>
Endowment net assets, end of year	<u>\$366,667</u>	<u>\$64,762</u>	<u>\$431,429</u>

	<u>June 30, 2018</u>		
	<u>Endowment Corpus</u>	<u>Endowment Earnings</u>	<u>Total</u>
Endowment net assets, beginning of year	\$366,667	\$30,246	\$396,913
Investment income	0	6,545	6,545
Net realized/unrealized gain	<u>0</u>	<u>8,574</u>	<u>8,574</u>
Endowment net assets, end of year	<u>\$366,667</u>	<u>\$45,365</u>	<u>\$412,032</u>

### **Note 10 - Retirement Plan**

The School sponsors a 401(k) profit sharing plan. Employees at least 21 years old are eligible to participate. The School's contributions are determined annually, on a discretionary basis, which was 4% through the years ended June 30, 2019 and 2018. The total amount of employer contributions was \$29,196 and \$74,006 for the years ended June 30, 2019 and 2018, 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, 2019 cannot be ascertained. Management believes that the final outcome of these matters will not have a material impact on the financial statements of the School.

**Note 12 - Significant Concentrations**

Financial instruments, which potentially subject the School to concentration of credit risk, consist of cash, money market accounts and investment securities. The School places its temporary cash and money market accounts with financial institutions that management deems to be creditworthy. At times, balances may exceed federally insured limits. At year end, there were no significant uninsured balances. The market value of investments is subject to fluctuation; however, management believes the investment policy is prudent for the long-term welfare of the School.

The School is dependent upon grants from NYCDOE to carry out its operations. Revenue from NYCDOE was 71% and 70% of the School’s total public support and revenue in 2019 and 2018, respectively.

**Note 13 - Liquidity and Availability of Financial Resources**

The School maintains cash on hand to be available for its general expenditures, liabilities, and other obligations for on-going operations. As part of its liquidity management, the School operates its programs within a board-approved budget and relies primarily on NYC per pupil funding to fund its operations and program activities.

The following reflects the School’s financial assets at December 31, 2019 that are available to meet cash needs for general expenditures within one year:

Cash and cash equivalents	\$96,691	
Investments	1,704,356	
Grants receivable –		
New York City Department of Education	10,038	
Government grants receivable	42,625	
Contributions receivable	15,000	
Employee loans receivable	<u>10,860</u>	
Total financial assets		\$1,879,570
Less amounts not available to be used within one year:		
Donor restricted endowment assets		<u>(440,603)</u>
Financial assets available to meet cash needs for general expenditures within one year		<u>\$1,438,967</u>

**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, 2019, 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 25, 2019.

***Internal Control over Financial Reporting***

In planning and performing our audit of the financial statements, we considered the School’s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School’s internal control. Accordingly, we do not express an opinion on the effectiveness of the School’s internal control.

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

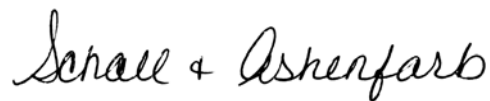
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### ***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether the School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### ***Purpose of this Report***

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Schall & Ashenfarb  
Certified Public Accountants, LLC

October 25, 2019

**BROOKLYN CHARTER SCHOOL  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
JUNE 30, 2019**

Current Year:

None

Prior Year Follow-Up:

**2018-001** - This condition has been resolved