



***Brooklyn Excelsior
Charter School***

*Office of Management and Budget Circular
A-133 Reports Including Supplemental
Schedule of Expenditures of Federal Awards
for the Year Ended June 30, 2008*

BROOKLYN EXCELSIOR CHARTER SCHOOL

OFFICE OF MANAGEMENT AND BUDGET CIRCULAR A-133 REPORTS
YEAR ENDED JUNE 30, 2008

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INDEPENDENT AUDITORS' REPORT

Board of Trustees
Brooklyn Excelsior Charter School
Brooklyn, New York

We have audited the accompanying statement of financial position of Brooklyn Excelsior Charter School (the "School") as of June 30, 2008, and the related statement of activities and change in net assets, and statement of cash flows for the year then ended. These financial statements are the responsibility of the management of the School. 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of the School, as of June 30, 2008, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of the School, taken as a whole. The supplemental schedule of functional expenses listed in the table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements of the School. The accompanying supplemental schedule of expenditures of federal awards is presented for the purpose of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. These schedules are the responsibility of the management of the School. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects when considered in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 8, 2008, on our consideration of the School's internal control over financial reporting and 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.



September 8, 2008

BROOKLYN EXCELSIOR CHARTER SCHOOL

STATEMENT OF FINANCIAL POSITION JUNE 30, 2008

ASSETS

Cash	\$ 16,684
Due from governmental revenue sources	<u>258,039</u>

TOTAL	<u>\$274,723</u>
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LIABILITIES AND NET ASSETS

LIABILITIES:

Deferred revenue	\$ 6,693
Due to National Heritage Academies, Inc.	<u>237,577</u>

Total liabilities	244,270
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NET ASSETS—Unrestricted	<u>30,453</u>
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TOTAL	<u>\$274,723</u>
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See notes to financial statements.

BROOKLYN EXCELSIOR CHARTER SCHOOL

STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS YEAR ENDED JUNE 30, 2008

REVENUES, GAINS AND OTHER SUPPORT:	
State aid	\$ 7,438,253
Other state source	2,526
Federal sources	758,359
Local sources	11,511
Private sources—National Heritage Academies, Inc.	<u>510,562</u>
Total revenues, gains and other support	8,721,211
EXPENSES—Contracted service fee	<u>8,749,666</u>
CHANGE IN NET ASSETS	(28,455)
NET ASSETS:	
Beginning of year	<u>58,908</u>
End of year	<u>\$ 30,453</u>

See notes to financial statements.

BROOKLYN EXCELSIOR CHARTER SCHOOL

STATEMENT OF CASH FLOWS YEAR ENDED JUNE 30, 2008

CASH FLOWS USED FOR OPERATING ACTIVITIES:

State aid	\$ 7,488,224
Other state sources	22,536
Federal sources	685,629
Local sources	11,511
Payments for services rendered	<u>(8,265,717)</u>
Net cash used for operating activities	<u>(57,817)</u>
NET DECREASE IN CASH	(57,817)
CASH—Beginning of year	<u>74,501</u>
CASH—End of year	<u>\$ 16,684</u>

RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH USED FOR OPERATING ACTIVITIES:

Change in net assets	\$ (28,455)
Adjustments to reconcile change in net assets to net cash used for operating activities:	
Change in due from governmental revenue sources	(9,440)
Change in deferred revenue	6,693
Change in due to National Heritage Academies, Inc.	<u>(26,615)</u>
NET CASH USED FOR OPERATING ACTIVITIES	<u>\$ (57,817)</u>

See notes to financial statements.

BROOKLYN EXCELSIOR CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2008

1. NATURE OF OPERATIONS

Brooklyn Excelsior Charter School (the "School") is a public charter school as defined by Article 56 of the New York State Education Law which provides education based on rigorous teaching methods, parental involvement, student responsibility, and basic moral values. The School operates under a charter approved by the State University of New York, which is responsible for oversight of the School's operations. The charter expires July 31, 2013 and is subject to renewal. Management believes the charter will be renewed in the ordinary course of business. The School provides education, at no cost to the parent, to students in kindergarten through the eighth grade. Enrollment is open to all appropriately aged children without regard to gender, ethnic background, disability, and/or religious affiliation. The School is exempt from federal income tax under Section 501(a) of the Internal Revenue Code as an organization described in Section 501(c)(3).

The School's primary source of revenue is provided by the State of New York and consists of an amount per student multiplied by weighted average student counts. The state revenue is recognized ratably over the school year and was funded through payments from July 2007 through May 2008.

The Board of Trustees of the School has entered into a management agreement (the "agreement") with National Heritage Academies, Inc. ("NHA") which requires NHA to provide administration, strategic planning and all labor, materials, equipment, and supervision necessary for the provision of educational services to students. As part of the consideration received under the agreement, NHA also provides the facility in which the School operates. The agreement will automatically renew on a year-to-year basis, unless at least 90 days written notice of intent to terminate or renegotiate is given by either the School or NHA.

Under the terms of the agreement, NHA receives as remuneration for its services an amount equal to the total revenue received by the School from all revenue sources. NHA provides a spending account to the Board of Trustees for discretionary expenditures on an annual basis. Revenues—Private Sources—NHA represent a credit granted by NHA for the excess of School expenditures over public revenues available.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting—The financial statements have been prepared in accordance with Section 2851 of the Education Law of the State of New York which requires such statements to be prepared on the accrual basis of accounting in accordance with generally accepted accounting principles accepted in the United States for not-for-profit organizations.

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 disclosures 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.

Cash—Cash as of June 30, 2008, represents bank deposits which are covered by federal depository insurance.

Deferred Revenue—Deferred revenue as of June 30, 2008, consists of funds received for services which have not yet been performed.

The Financial Statements—The financial statements are presented as follows:

Net assets and changes therein are classified and reported as follows:

- *Unrestricted net assets*—Net assets which are not subject to donor imposed or governmental stipulations.
- *Temporarily restricted net assets*—Temporarily restricted net assets are net assets subject to donor-imposed stipulations that may or will be met either by actions of the Board and/or the passage of time.

Revenues, contributions and investment income are reported as follows:

- Revenues, gains and other support are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed or governmental restrictions. Expenses are reported as decreases in unrestricted net assets. Other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or governmental restriction. Expiration of temporary restrictions on net assets (i.e., the donor-stipulated purposes has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets.

3. RISK MANAGEMENT

The School is exposed to various risks of loss related to general liability. Commercial insurance policies to cover certain risks of loss have been obtained. There have been no significant reductions in insurance coverage during fiscal year 2008 and claims did not exceed coverage less retained risk deductible amounts in the past three fiscal years.

4. CONTINGENCIES

The School has received proceeds from several federal and state grants. Periodic audits of these grants are required and certain costs may be questioned as not being appropriate expenditures under the grant agreements. Such audits could result in the refund of grant monies to the grantor agencies. Management believes that any required refunds will be immaterial. No provision has been made in the accompanying financial statements for the refund of grant monies.

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SUPPLEMENTAL SCHEDULE

BROOKLYN EXCELSIOR CHARTER SCHOOL

SCHEDULE OF FUNCTIONAL EXPENSES YEAR ENDED JUNE 30, 2008

	Program Services		Supporting Services	Total
	Regular Education	Special Education	Management and General	
Contracted service fee:				
Salaries and wages	\$ 2,737,178	\$ 168,255	\$ -	\$ 2,905,433
Retirement contributions	29,911	544		30,455
Other employee benefits	325,377	31,093		356,470
Payroll taxes	248,630	16,742		265,372
Accounting fees	10,630		50,410	61,040
Supplies	422,879	1,103		423,982
Postage and shipping	5,279			5,279
Occupancy	3,263,590		4,242	3,267,832
Food service	361,733			361,733
Equipment rental and maintenance	13,255			13,255
Printing and publications	42,154	45		42,199
Travel	9,520	646		10,166
Conferences and meetings	89,760	1,036		90,796
Professional fees	193,896	49,899		243,795
Instructional support			59,443	59,443
Executive administration			286,877	286,877
Office of the principal			41,695	41,695
Board oversight			42,068	42,068
Human resources			74,548	74,548
Technology services	71		72,686	72,757
Marketing and business development	1,842		9,029	10,871
Insurance	22,881			22,881
Miscellaneous	45,939	307	14,473	60,719
Total contracted service fee	<u>\$ 7,824,525</u>	<u>\$ 269,670</u>	<u>\$ 655,471</u>	<u>\$ 8,749,666</u>

SINGLE AUDIT SECTION

INDEPENDENT AUDITORS' 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

Board of Trustees
Brooklyn Excelsior Charter School
Brooklyn, New York

We have audited the financial statements of Brooklyn Excelsior Charter School (the "School") as of and for the year ended June 30, 2008, and have issued our report thereon dated September 8, 2008. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the School's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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*.

This report is intended solely for the information and use of the Board of Trustees, management of the School, National Heritage Academies, Inc., State University of New York, the New York State of Education Department, federal awarding agencies, and state funding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Deloitte & Touche LLP

September 8, 2008

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of Trustees
Brooklyn Excelsior Charter School
Brooklyn, New York

Compliance

We have audited the compliance of Brooklyn Excelsior Charter School (the "School") with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2008. The School's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the School's management. Our responsibility is to express an opinion on the School's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the School's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the School's compliance with those requirements.

In our opinion, the School complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008.

Internal Control Over Compliance

The management of the School is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the School's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the School's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Board of Trustees, management of the School, National Heritage Academies, Inc., the State University of New York, the New York State Education Department, federal awarding agencies and state funding agencies, and is not intended to be and should not be used by anyone other than these specified parties.

Deloitte & Touche LLP

September 8, 2008

BROOKLYN EXCELSIOR CHARTER SCHOOL

SUPPLEMENTAL SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS YEAR ENDED JUNE 30, 2008

Federal Grantor/Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	State/Pass- through Grantor's Number	Expenditures
Clusters—			
Child Nutrition Cluster			
U.S. Department of Agriculture—			
Direct Program—			
National School Lunch Program	10.555		\$ 285,943
U.S. Department of Education:			
Passed through New York State Education Department:			
Title I, Grants to Local Educational Agencies	84.010	0021074232	55,096
		0021084232	352,220
Title II, Improving Teacher Quality	84.367	0147074232	5,134
		0147084232	4,238
Title IID, Technology Education	84.318	0292084232	4,509
Title V, LEA Allocation	84.298	0002084232	3,605
Passed through New York City Department of Education—			
IDEA, Part B	84.027	PG04020084234902	<u>47,614</u>
Total U.S. Department of Education			<u>472,416</u>
TOTAL FEDERAL ASSISTANCE			<u>\$ 758,359</u>

See note to the supplemental schedule of expenditures of federal awards.

BROOKLYN EXCELSIOR CHARTER SCHOOL

NOTE TO THE SUPPLEMENTAL SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS YEAR ENDED JUNE 30, 2008

A. RECONCILIATION TO FUND STATEMENTS

The accompanying schedule of expenditures of federal awards presents the activity of federal award programs administered by the School, using the accrual basis of accounting. The information is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments and Non-Profit Organizations.

BROOKLYN EXCELSIOR CHARTER SCHOOL

SCHEDULE OF FINDINGS AND QUESTIONED COSTS YEAR ENDED JUNE 30, 2008

PART I—SUMMARY OF AUDITOR'S RESULTS

A.	Financial Statements	
	Type of auditors' report issued:	Unqualified
	Internal control over financial reporting:	
	• Material weakness(es) identified?	No
	• Significant deficiency(s) identified that are not considered to be material weakness(es)?	None reported
	Noncompliance material to financial statements?	No
B.	Federal Awards	
	Internal control over major state programs:	
	• Material weakness(es) identified?	No
	• Significant deficiency(s) identified that are not considered to be material weakness(es)?	None reported
	Type of auditors' report issued on compliance for major programs:	Unqualified
	Any audit findings disclosed that are required to be reported in accordance with section 501(a) of Circular A-133?	No
	Identification of major programs:	
	Name of Federal Program	CFDA Number
	Title I, Grants to Local Educational Agencies	84.010
	National School Lunch Program	10.555
	Dollar threshold used to distinguish between Type A and Type B Programs	\$300,000
	Auditee qualified as low risk?	No

BROOKLYN EXCELSIOR CHARTER SCHOOL

**SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2008**

PART I—FINANCIAL STATEMENTS FINDINGS

Findings relating to financial statements, which are required to be reported in accordance with *Government Auditing Standards*:

No matters were reported.

PART II—FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.

BROOKLYN EXCELSIOR CHARTER SCHOOL

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2008**

PART II—FINANCIAL STATEMENTS FINDINGS

Findings relating to financial statements, which are required to be reported in accordance with *Government Auditing Standards*:

No matters were reported.

PART III—FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.