

Broome Street Academy Charter High School

Financial Report
June 30, 2014

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Independent Auditor's Report

To the Board of Trustees
Broome Street Academy Charter High School
New York, New York

Report on the Financial Statements

We have audited the accompanying financial statements of Broome Street Academy Charter High School (BSA), which comprise the statements of financial position as of June 30, 2014 and 2013, the related statements of activities, functional expenses, and cash flows for the years 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 audits. We conducted our audits 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 entity'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 entity'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 Broome Street Academy Charter High School as of June 30, 2014 and 2013, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our reports dated October 20, 2014 and October 31, 2013 on our consideration of BSA'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 these reports 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. These reports are an integral part of an audit performed in accordance with *Government Auditing Standards* in considering BSA's internal control over financial reporting and compliance.

McGladrey LLP

New York, New York
October 20, 2014

Broome Street Academy Charter High School

**Statements of Financial Position
June 30, 2014 and 2013**

Assets	2014	2013
Cash	\$ 844,217	\$ 976,652
Restricted Cash	75,166	50,099
Grants, Contracts and Other Receivables	86,940	235,833
Prepaid Expenses and Other Assets	25,638	51,247
Property and Equipment, Net	<u>839,658</u>	<u>709,378</u>
Total assets	<u>\$ 1,871,619</u>	<u>\$ 2,023,209</u>
Liabilities and Net Assets		
Liabilities		
Refundable advances	\$ 246	\$ 12,387
Accounts payable and accrued expenses	422,986	288,930
Deferred rent obligation	93,765	115,648
Other	7,630	-
Total liabilities	<u>524,627</u>	<u>416,965</u>
Commitments and Contingency		
Net Assets		
Unrestricted:		
Reserve - contingency	75,166	50,000
Undesignated for general use	360,060	498,700
Net investment in fixed assets	<u>839,658</u>	<u>709,378</u>
Total unrestricted	1,274,884	1,258,078
Temporarily restricted	<u>72,108</u>	<u>348,166</u>
Total net assets	<u>1,346,992</u>	<u>1,606,244</u>
Total liabilities and net assets	<u>\$ 1,871,619</u>	<u>\$ 2,023,209</u>

See Notes to Financial Statements.

Broome Street Academy Charter High School

**Statements of Activities
Years Ended June 30, 2014 and 2013**

	2014			2013		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Operating Revenue						
State and local per pupil operating revenue	\$ 4,318,964	\$ -	\$ 4,318,964	\$ 3,526,942	\$ -	\$ 3,526,942
Government grants and contracts	263,809	-	263,809	537,753	-	537,753
Total operating revenue	4,582,773	-	4,582,773	4,064,695	-	4,064,695
Operating Expenses						
Program services:						
Regular education	3,204,285	-	3,204,285	2,509,805	-	2,509,805
Special education	1,094,728	-	1,094,728	807,732	-	807,732
Total program services	4,299,013	-	4,299,013	3,317,537	-	3,317,537
Management and general	799,207	-	799,207	595,393	-	595,393
Total operating expenses	5,098,220	-	5,098,220	3,912,930	-	3,912,930
Net (deficit) revenue from school operations	(515,447)	-	(515,447)	151,765	-	151,765
Public Support and Other Revenue (Expenses)						
Public support:						
Contributions	242,510	-	242,510	357,672	-	357,672
Foundation and corporate support	164,264	11,250	175,514	72,834	348,166	421,000
Total public support	406,774	11,250	418,024	430,506	348,166	778,672
Interest Income	182	-	182	227	-	227
Miscellaneous Income	1,686	-	1,686	3,684	-	3,684
Fund-Raising Expenses	(163,697)	-	(163,697)	(167,015)	-	(167,015)
Net Assets Released From Restrictions	287,308	(287,308)	-	19,934	(19,934)	-
Total public support and other revenue (expenses)	532,253	(276,058)	256,195	287,336	328,232	615,568
Change in net assets	16,806	(276,058)	(259,252)	439,101	328,232	767,333
Net Assets						
Beginning	1,258,078	348,166	1,606,244	818,977	19,934	838,911
Ending	\$ 1,274,884	\$ 72,108	\$ 1,346,992	\$ 1,258,078	\$ 348,166	\$ 1,606,244

See Notes to Financial Statements.

Broome Street Academy Charter High School

Statements of Functional Expenses
Years Ended June 30, 2014 and 2013

	2014				2013							
	Program Services		Supporting Services		Program Services		Supporting Services					
	Regular Education	Special Education	Total	Management and General	Fund-Raising	Total Expenses	Management and General	Fund-Raising				
Salaries and Employee Benefits	\$ 2,016,862	\$ 678,946	\$ 2,695,798	\$ 304,315	\$ 75,853	\$ 380,168	\$ 3,075,966	\$ 1,944,606	\$ 83,699	\$ 388,036	\$ 2,327,642	
Payroll Taxes												
Professional and Administrative Fees	447,606	156,603	603,209	66,063	49,963	86,026	689,236	369,930	17,422	64,345	434,275	
Audit Fees	56,591	31,816	88,507	213,390	60,322	273,712	362,219	238,118	62,128	162,853	400,971	
Advertising and Recruitment	14,646	6,800	20,446	7,374	1,511	8,885	29,330	20,300	7,169	8,700	29,000	
Equipment and Software Maintenance	8,659	3,094	11,753	870	-	870	12,623	7,319	19,239	-	26,558	
Equipment Purchases	22,937	7,356	30,293	2,950	77	3,027	33,320	33,106	1,683	-	34,789	
Insurance	13,149	4,851	18,000	6,525	-	6,525	24,525	14,493	-	-	14,493	
Membership Dues	18,241	7,160	25,401	3,924	-	3,924	29,325	19,101	7,640	5,093	31,834	
Occupancy Costs	969	338	1,297	192	8	200	1,497	956	118	75	1,514	
Office, Instructional Supplies and Materials	266,643	89,762	346,405	66,104	-	66,104	412,509	141,545	54,702	73,798	270,045	
Postage, Printing and Copying	64,282	19,166	83,448	49,922	3,300	53,222	136,670	180,658	64,771	1,451	247,985	
Staff Development	3,464	1,261	4,725	811	843	1,654	6,379	1,900	682	3,934	6,526	
Student Meals	17,348	2,954	20,302	6,643	800	7,523	27,826	6,617	1,000	3,640	11,257	
Telephone	1,833	811	2,644	-	-	-	2,644	846	431	-	1,277	
Travel	4,120	1,438	5,658	1,061	-	1,061	6,619	2,336	1,097	2,128	5,562	
Youth Events	55	19	74	41	42	83	157	635	-	5	640	
Miscellaneous Expenses	14,994	5,324	20,318	-	-	-	20,318	26,325	11,782	-	38,107	
Depreciation and Amortization	3	-	3	11,014	723	11,737	11,740	12,113	4,545	1,857	2,732	
	241,804	79,029	320,833	58,008	175	58,183	379,016	107,994	41,624	28,277	178,070	
Total expenses	\$ 3,204,286	\$ 1,094,728	\$ 4,299,013	\$ 799,207	\$ 163,697	\$ 962,904	\$ 5,261,917	\$ 2,509,805	\$ 807,732	\$ 595,393	\$ 762,408	\$ 4,079,945

See Notes to Financial Statements.

Broome Street Academy Charter High School

**Statements of Cash Flows
Years Ended June 30, 2014 and 2013**

	2014	2013
Cash Flows From Operating Activities		
Change in net assets	\$ (259,252)	\$ 767,333
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	379,016	178,070
Amortization of deferred rent obligation	(21,883)	19,648
Net gain on sale of property and equipment	(1,158)	-
Changes in operating assets and liabilities:		
Increase in restricted cash	(25,067)	(25,054)
Decrease (increase) in grants, contracts and other receivables	148,893	(29,462)
Decrease (increase) in prepaid expenses and other assets	25,609	(25,564)
(Decrease) increase in refundable advances	(12,141)	3,947
Increase in accounts payable and accrued expenses	134,056	112,444
Increase in other liabilities	7,630	-
Net cash provided by operating activities	375,703	1,001,362
Cash Flows From Investing Activities		
Acquisition of property and equipment	(509,563)	(499,229)
Proceeds from sale of property and equipment	1,425	-
Net cash (used in) investing activities	(508,138)	(499,229)
Net change in cash	(132,435)	502,133
Cash		
Beginning	976,652	474,519
Ending	\$ 844,217	\$ 976,652

See Notes to Financial Statements.

Broome Street Academy Charter High School

Notes to Financial Statements

Note 1. Organization and Principal Business Activity

Broome Street Academy Charter High School (BSA) is a New York State, not-for-profit educational corporation operating as a charter school in Manhattan, New York. On October 19, 2010, the Board of Regents of the University of the State of New York granted BSA a provisional charter valid for a term of five years and renewable upon expiration. BSA's charter states that it will provide instruction to students in the ninth through twelfth grades for a period of five years.

BSA will prepare our young people for post-secondary success that leads to positive life outcomes. We value student strengths and will provide multiple pathways to success through a curriculum of rigorous academic, career and social instruction grounded in the principles of positive youth development. BSA is a tuition-free public charter high school devoted to providing students the necessary skills and support to graduate, while preparing them for a successful future beyond high school. BSA's admissions policy gives preference to students who are homeless, in foster care, or from low performing middle schools.

BSA opened in the fall of 2011 with a freshman class. BSA has added one grade-level since then, and will hit its full capacity of ninth through twelfth grades in the 2014-2015 school year. The BSA model merges academic, social, and emotional services to prepare students to graduate with a New York State Regents diploma, providing opportunities for a successful future. Additionally, BSA is partnered with, and housed within, The Door - A Center of Alternatives, Inc. (The Door), a not-for-profit organization under Section 501(c)(3) of the Internal Revenue Code founded in 1972 to provide a full range of integrated services a leading youth development agency that offers a full range of supportive programming in the areas of health, mental health, career and workforce development, legal services, supportive housing, and arts and recreation. Through the support found at BSA and The Door, New York City's most at-risk students will realize their greatest potential.

Note 2. Summary of Significant Accounting Policies

Basis of financial statement presentation: The financial statements of BSA have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. Net assets are classified and presented as unrestricted, temporarily restricted and permanently restricted based on the designation of donors. BSA had no permanently restricted net assets at June 30, 2014 and 2013.

State and local per pupil operating revenue: Revenue from the state and local governments resulting from BSA's charter status and based on the number of students enrolled is recorded when services are performed in accordance with the charter agreement.

Grants and refundable advances: BSA records cash received on certain government grants and contracts as refundable advances until related services are performed or qualifying expenditures are incurred, at which time it is recognized as revenue.

Contributions: Contributed assets are reported at fair value when BSA obtains possession or an unconditional promise to give. BSA reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions. Donor-restricted contributions whose restrictions are met in the same reporting period are reported as unrestricted contributions. Conditional contributions are recognized as revenue when the conditions on which they depend have been substantially met.

Broome Street Academy Charter High School

Notes to Financial Statements

Note 2. Summary of Significant Accounting Policies (Continued)

Contributions (Continued): Contributed supplies and materials for use in BSA's programs or distribution to students are recognized as revenue and expenses in the accompanying financial statements.

Contributed services are reported as contributions at their fair value if such services create or enhance nonfinancial assets or would have been purchased if not provided by donation, require specialized skills and are provided by individuals possessing such specialized skills

A number of volunteers have made a contribution of their time to BSA to develop its academic and other programs and to serve on the board of trustees. The value of this contributed time is not reflected in these financial statements as such services do not meet the criteria for recognition under accounting principles generally accepted in the United States of America.

Food services: The New York City Department of Education provides free lunches to a majority of BSA's students. Such costs are not included in these financial statements. BSA covers the cost of lunches for children not entitled to the free lunches.

Cash and concentration of credit risk: BSA's cash in bank accounts are maintained with one financial institution, and balances at times may exceed federally insured limits. BSA has not experienced any losses in such accounts.

Property and equipment and related depreciation and amortization: Property and equipment is recorded at cost. Additions and improvements in excess of \$5,000 with an estimated useful life of more than one year are capitalized. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Amortization of leasehold improvements is provided on the straight-line method over the remaining term of the lease.

Accounting 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 assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates.

Income taxes: BSA is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (the Code). As a nonprofit organization, BSA is subject to unrelated business income tax (UBIT), if applicable. For the tax years ended June 30, 2014 and 2013, BSA did not owe any UBIT. Management evaluated BSA's tax positions and concluded that BSA had taken no uncertain tax positions that require recognition or disclosure to these financial statements. With a few exceptions, BSA is no longer subject to income tax examinations by U.S. federal, state or local tax authorities for years before 2011.

Reclassifications: Certain 2013 amounts have been reclassified to conform with the 2014 financial statement presentation. The reclassification had no effect on 2013 reported assets, liabilities, net assets and changes in net assets.

Broome Street Academy Charter High School

Notes to Financial Statements

Note 2. Summary of Significant Accounting Policies (Continued)

Recently issued accounting pronouncements: In October 2012, the Financial Accounting Standards Board (the FASB) issued Accounting Standards Update (ASU) 2012-04, *Technical Corrections and Improvements*. The amendments in this update cover a wide range of topics including technical corrections and improvements to the Accounting Standards Codification and conforming amendments related to fair value measurements. The amendments in this update will generally be effective for fiscal periods beginning after December 15, 2013 for nonpublic entities, except for amendments in this update where there was no transition guidance and which were immediately effective upon issuance. The impact of adopting ASU 2012-04 on BSA's financial statements for subsequent periods has not yet been determined.

In April 2013, the FASB issued ASU 2013-06, *Services Received from Personnel of an Affiliate*. The amendments in this update require a recipient not-for-profit entity to recognize all services received from personnel of an affiliate that directly benefit the recipient not-for-profit entity. The amendments in this update will generally be effective for fiscal periods beginning after June 15, 2014. The impact of adopting ASU 2013-06 on BSA's financial statements for subsequent periods has not yet been determined.

Note 3. Restricted Cash

BSA maintains an escrow account, pursuant to its charter agreement, to pay off expenses in the event of its dissolution.

Note 4. Grants, Contracts and Other Receivables

Grants, contracts and other receivables are due in full within one year. Management has evaluated these receivables and concluded that all of these receivables will be collected in full and no allowance for uncollectible account is necessary.

Note 5. Property and Equipment, Net

Property and equipment, at cost, consists of the following as of June 30:

	2014	2013	Estimated Useful Life
Furniture and equipment	\$ 224,259	\$ 97,961	3 - 5 years
Computer equipment	302,274	302,274	3 - 5 years
Leasehold improvements	920,627	546,848	Term of lease
	1,447,160	947,083	
Less accumulated depreciation and amortization	(607,502)	(237,705)	
	<u>\$ 839,658</u>	<u>\$ 709,378</u>	

Broome Street Academy Charter High School

Notes to Financial Statements

Note 6. Pension Plan

BSA sponsors a 403(b) thrift plan. All employees are immediately eligible to begin making voluntary salary reduction contributions. Additionally, BSA has both an employer base contribution and an employer matching contribution in the plan.

For the base employer contribution, employees must be at least age 21 and have two years of service to be eligible to start receiving the 3% employer base contribution. Participants will receive this base contribution regardless of whether they are contributing to the 403(b) plan or not. The employer base contribution is 100% immediately vested because the eligibility is two years.

For the employer match, the participant must be at least age 21 and have two years of service with BSA to be eligible to start receiving the employer match. After two years with BSA, if a participant is voluntarily contributing 1% salary reduction into the 403(b), BSA will then begin to match that and put in an employer matching contribution equivalent to 3%. With the employer match, the vesting is also 100% immediate because the eligibility is two years.

During the years ended June 30, 2014 and 2013, BSA contributed \$41,488 and \$7,597, respectively, to the plan.

Note 7. Related Party Transactions

The Door is the sole member of BSA and three members of the board of The Door are also members of the 13-member board of BSA.

During the years ended June 30, 2014 and 2013, BSA paid The Door \$260,000 and \$213,000, respectively, under an approved services agreement, to provide administrative support and fund-raising services, human resources services, fiscal management and information technology. Such amounts are included as professional and administrative fees in the statements of functional expenses. Service agreements between BSA and The Door are reviewed and approved annually by BSA's board of trustees.

BSA has a five-year operating lease agreement, commencing on July 1, 2011, with The Door for classrooms and office space at 121 Avenue of the Americas, New York, NY 10013. This agreement was amended in June 2013 and in August 2013. Rent paid to The Door under this lease agreement amounted to \$379,588 and \$210,590 for the years ended June 30, 2014 and 2013, respectively. Such amounts are included as occupancy costs in the statements of functional expenses. Aggregate minimum rent payable on this agreement, as amended, is \$275,000 for each of the fiscal years ending June 30, 2015 and 2016.

During the year ended June 30, 2014, BSA received a grant of \$100,000 from The Door for facility-related costs. The amount is included as foundation and corporate support in the 2014 statement of activities.

Note 8. Temporarily Restricted Net Assets

Temporarily restricted net assets at June 30, 2014 and 2013 consist of contributions restricted for certain school programs in fiscal years 2015 and 2014, respectively.

Broome Street Academy Charter High School

Notes to Financial Statements

Note 9. Contingency

Certain grants and contracts may be subject to audit by the funders. Such audits may result in disallowances of costs submitted for reimbursement by BSA. Management does not anticipate that any cost disallowances will have a material effect on the accompanying financial statements. Accordingly, no amounts have been provided in the accompanying financial statements for such potential claims.

Note 10. Subsequent Events

BSA evaluates events occurring after the date of the financial statements to consider whether or not the impact of such events needs to be reflected and/or disclosed in the financial statements. Such evaluation is performed through the date the financial statements are available for issuance, which was October 20, 2014 for these financial statements.



**Independent Auditor's 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
Broome Street Academy Charter High School
New York, New York

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 Broome Street Academy Charter High School (BSA), which comprise the statement of financial position as of June 30, 2014, 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 20, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered BSA'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 BSA's internal control. Accordingly, we do not express an opinion on the effectiveness of BSA'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 a 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 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 BSA's financial statements are free from 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.

McGladrey LLP

New York, New York
October 20, 2014