

BROOKLYN EAST COLLEGIATE CHARTER SCHOOL

BROOKLYN, NEW YORK

AUDITED FINANCIAL STATEMENTS

OTHER FINANCIAL INFORMATION

REPORT REQUIRED BY
GOVERNMENT AUDITING STANDARDS

AND

INDEPENDENT AUDITORS' REPORTS

JUNE 30, 2011

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MENGEL METZGER BARR & CO. LLP

Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

Board of Trustees
Brooklyn East Collegiate Charter School

We have audited the accompanying statement of financial position of Brooklyn East Collegiate Charter School as of June 30, 2011, and the related statements of activities and changes in net assets, functional expenses and cash flows for the period from February 23, 2009 (date of inception) to June 30, 2011. These financial statements are the responsibility of the Charter School's management. 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 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, the financial statements referred to above present fairly, in all material respects, the financial position of Brooklyn East Collegiate Charter School as of June 30, 2011, and the changes in its net assets and its cash flows for the period from February 23, 2009 (date of inception) to June 30, 2011 in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 18, 2011 on our consideration of Brooklyn East Collegiate Charter School's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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.

Mengel, Metzger, Barw & Co. LLP

Rochester, New York
October 18, 2011

BROOKLYN EAST COLLEGIATE CHARTER SCHOOL

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2011

ASSETS

CURRENT ASSETS

Cash	\$ 305,123
Grants and other receivables	164,838
Prepaid expenses	<u>33,119</u>
TOTAL CURRENT ASSETS	503,080

PROPERTY AND EQUIPMENT, net

37,241	
TOTAL ASSETS	<u>\$ 540,321</u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable and accrued expenses	\$ 212,222
Deferred revenue	<u>100,000</u>
TOTAL CURRENT LIABILITIES	312,222

NET ASSETS, unrestricted

Designated for building fund	105,000
Undesignated	<u>123,099</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 540,321</u>

The accompanying notes are an integral part of the financial statements.

BROOKLYN EAST COLLEGIATE CHARTER SCHOOL

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

PERIOD FROM FEBRUARY 23, 2009 (DATE OF INCEPTION) TO JUNE 30, 2011

Operating revenue and support:	
State and local per pupil operating revenue	\$ 1,166,598
Government grants	353,409
Contributions	480,243
Other income	<u>27</u>
TOTAL OPERATING REVENUE AND SUPPORT	2,000,277
Expenses:	
Program services - education	1,524,698
General and administrative	<u>247,480</u>
TOTAL EXPENSES	1,772,178
CHANGE IN NET ASSETS	228,099
Unrestricted net assets at beginning of period	<u>-</u>
UNRESTRICTED NET ASSETS AT END OF PERIOD	<u>\$ 228,099</u>

The accompanying notes are an integral part of the financial statements.

BROOKLYN EAST COLLEGIATE CHARTER SCHOOL

STATEMENT OF FUNCTIONAL EXPENSES

PERIOD FROM FEBRUARY 23, 2009 (DATE OF INCEPTION) TO JUNE 30, 2011

	Program services - education	General and administrative	Total
Salaries	\$ 899,574	\$ 130,257	\$ 1,029,831
Payroll taxes and employee benefits	132,131	19,132	151,263
Occupancy	94,198	-	94,198
Repairs and maintenance	4,167	330	4,497
Textbooks	4,868	-	4,868
Instructional supplies and assessments	60,392	-	60,392
Computer and technology support	80,114	-	80,114
Student enrichment and services	45,996	-	45,996
Professional development	69,604	-	69,604
Professional services	-	23,898	23,898
Telephone	-	14,702	14,702
Insurance	-	13,957	13,957
Management fees	112,792	19,904	132,696
Office expense	3,675	22,479	26,154
Depreciation and amortization	17,187	46	17,233
Other	-	2,775	2,775
	<u>\$ 1,524,698</u>	<u>\$ 247,480</u>	<u>\$ 1,772,178</u>

The accompanying notes are an integral part of the financial statements.

BROOKLYN EAST COLLEGIATE CHARTER SCHOOL

STATEMENT OF CASH FLOWS

PERIOD FROM FEBRUARY 23, 2009 (DATE OF INCEPTION) TO JUNE 30, 2011

CASH FLOWS - OPERATING ACTIVITIES

Change in net assets	\$ 228,099
Adjustments to reconcile change in net assets to net cash provided from operating activities:	
Depreciation and amortization	17,233
Changes in certain assets and liabilities affecting operations:	
Grants and other receivables	(164,838)
Prepaid expenses	(33,119)
Accounts payable and accrued expenses	212,222
Deferred revenue	<u>100,000</u>
NET CASH PROVIDED FROM OPERATING ACTIVITIES	359,597

CASH FLOWS - INVESTING ACTIVITIES

Purchases of property and equipment	<u>(54,474)</u>
NET CASH USED FOR INVESTING ACTIVITIES	<u>(54,474)</u>
NET INCREASE IN CASH	305,123
Cash at beginning of period	-
CASH AT END OF PERIOD	<u>\$ 305,123</u>

The accompanying notes are an integral part of the financial statements.

BROOKLYN EAST COLLEGIATE CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

NOTE A: THE CHARTER SCHOOL AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Charter School

Brooklyn East Collegiate Charter School (the “Charter School”), is an educational corporation operating as a charter school in the borough of Brooklyn, New York City. On February 23, 2009, the Board of Regents of the University of the State of New York granted the Charter School a provisional charter valid for a term of five years and renewable upon expiration.

The Charter School’s mission is to prepare students to enter, succeed in, and graduate from college.

Financial Statement presentation

The financial statements of the Charter School have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. The Charter School reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

These classes of net assets are defined as follows:

Permanently restricted – Net assets resulting from contributions and other inflows of assets whose use by the Charter School is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Charter School. The Charter School had no permanently restricted net assets at June 30, 2011.

Temporarily restricted – Net assets resulting from contributions and other inflows of assets whose use by the Charter School is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Charter School pursuant to those stipulations. The Charter School had no temporarily restricted net assets at June 30, 2011.

Unrestricted – The net assets over which the Governing Board has discretionary control to use in carrying on the Charter School’s operations in accordance with the guidelines established by the Charter School. The Board may designate portions of the current unrestricted net assets for specific purposes, projects or investment.

Revenue and support recognition

Revenue from state and local governments resulting from the Charter School’s charter status and based on the number of students enrolled is recorded when services are performed in accordance with the charter agreement.

Revenue from federal, state and local government grants and contracts are recorded by the Charter School when qualifying expenditures are incurred and billable.

BROOKLYN EAST COLLEGIATE CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2011

NOTE A: THE CHARTER SCHOOL AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES,

Cont'd

Contributions

Contributions received are recorded as unrestricted, temporarily or permanently restricted support depending on the existence of any donor restrictions. A contribution that is received and expended in the same year for a specific purpose is classified as unrestricted revenue.

Contributions are recorded 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 purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities and changes in net assets as net assets released from restrictions.

Cash

The Charter School maintains its cash balances at a financial institution located in New York. Cash account balances are insured by the Federal Deposit Insurance Corporation up to \$250,000 at the institution. In addition, certain non-interest bearing transaction accounts at the financial institution are 100% insured through December 31, 2012. In the normal course of business, the interest bearing account balances at any given time may exceed insured limits. However, the Charter School has not experienced any losses in such accounts and does not believe it is exposed to significant risk in cash and cash equivalents.

Grants and other receivables

Grants and other receivables are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts based on its assessment of the current status of individual receivables from grants, agencies and others. Balances that are still outstanding after management has used reasonable collection efforts are written off against the allowance for doubtful accounts. There was no allowance for doubtful accounts at June 30, 2011.

Property and equipment

Property and equipment are recorded at cost. Depreciation and amortization is computed using the straight-line method on a basis considered adequate to depreciate the assets over their estimated useful lives, which range from three to seven years.

Deferred revenue

The Charter School records grant revenue as deferred revenue until it is expended for the purpose of the grant, at which time it is recognized as revenue.

BROOKLYN EAST COLLEGIATE CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2011

NOTE A: THE CHARTER SCHOOL AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES,

Cont'd

Tax exempt status

The Charter School has applied for and is currently awaiting tax-exempt status under section 501(c)(3) of the Internal Revenue Code and applicable state regulations. The Charter School believes it will be awarded tax-exempt status and, therefore, has not recorded any income tax expense for the period ended June 30, 2011.

The Charter School has filed for income tax exemptions in the jurisdictions where it is required to do so. The Charter School files Form 990 tax returns in the U.S. federal jurisdiction. The tax return for the years ended June 30, 2010 and 2011 are still subject to potential audit by the IRS. There was no tax return filed for the period ended June 30, 2009. The Charter School adopted the provisions of FASB ASC 740-10 *Accounting for Uncertainty in Income Taxes* (formerly FIN 48), and its related amendment on July 1, 2009. Management of the Charter School believes it has no material uncertain tax positions and, accordingly it will not recognize any liability for unrecognized tax benefits.

Contributed services

The Charter School receives contributed services from volunteers to develop its academic program and to serve on the Board of Trustees. These services are not valued in the financial statements because they do not require "specialized skills" and would typically not be purchased if they were not contributed.

Use of estimates in the preparation of financial statements

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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

Subsequent events

The Charter School has conducted an evaluation of potential subsequent events occurring after the statement of financial position date through October 18, 2011, which is the date the financial statements are available to be issued. No subsequent events requiring disclosure were noted other than mentioned in Note C.

BROOKLYN EAST COLLEGIATE CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2011

NOTE B: RELATED PARTY TRANSACTIONS

Uncommon Schools, Inc. ("USI"), a not-for-profit organization dedicated to helping start and run charter schools, provides management and other administrative support services to the Charter School. The Charter School entered into a five year agreement with USI, dated July 1, 2010, under which the Charter School pays USI a service fee of a set percentage of the average number of students enrolled at the Charter School during the school year multiplied by the approved per pupil operating expenses for the school year, and a percentage of all other public entitlement funding receivable during the fiscal year, excluding in-kind contributions and funds from competitive public grants. This percentage is fixed at 10% for years 1-3, decreasing to 9.5% in year 4 and 9% in year 5. The fee incurred for the period from February 23, 2009 (date of inception) to June 30, 2011 was \$132,696. At June 30, 2011, approximately \$100,000 is included in accounts payable, relating to USI.

The Charter School is related to Kings Collegiate Charter School, Brownsville Collegiate Charter School, Ocean Hill Collegiate Charter School, Williamsburg Collegiate Charter School and Bedford Stuyvesant Collegiate Charter School through common Board representation. As none of the schools have an economic interest in the net assets of any other school, the facts do not require consolidation of any of these schools with the Charter School in accordance with FASB ASC 958-810 (formerly SOP 94-3 "Reporting of Related Entities by Not-For-Profit Organizations").

NOTE C: SCHOOL FACILITY

The Charter School occupies space with a related Charter School at no charge. At June 30, 2011, the board of trustees has designated \$105,000 as a building fund to meet future needs of the Charter School. During the period from February 23, 2009 (date of inception) to June 30, 2011, the Charter School paid for certain utility and maintenance services on a square footage basis amounting to approximately \$94,000.

Subsequently in August 2011, the Charter School moved into a New York City Department of Education facility.

NOTE D: PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

Furniture and fixtures	\$ 4,302
Computers and software	50,172
	<hr/> 54,474
Less accumulated depreciation and amortization	17,233
	<hr/> <u>\$ 37,241</u>

BROOKLYN EAST COLLEGIATE CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2011

NOTE E: OPERATING LEASE

The Charter School leases office equipment under a non-cancelable lease agreement expiring in December 2013. The future minimum payments on this agreement are as follows:

<u>Year ending June 30,</u>	<u>Amount</u>
2012	7,082
2013	7,082
2014	<u>2,951</u>
	<u>\$ 17,115</u>

NOTE F: RETIREMENT PLAN

The Charter School sponsors a defined contribution 403(b) plan covering most employees. The Charter School matches employees' contributions up to 3% of gross payroll. The Charter School's total contribution to the Plan for the period from February 23, 2009 (date of inception) to June 30, 2011 approximated \$8,200.

NOTE G: CONTINGENCY

Certain grants and contracts may be subject to audit by funding sources. Such audits might result in disallowance of costs submitted for reimbursement by the Charter School. Management is of the opinion that such disallowances, if any, will not 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 H: CONCENTRATION

At June 30, 2011, 23% of accounts receivable are due from New York State.

During the period from February 23, 2009 (date of inception) to June 30, 2011, 58% of total operating revenue and support came from per-pupil funding provided by New York State. The per-pupil rate is set annually by the State based on the school district in which the Charter School is located.

BROOKLYN EAST COLLEGIATE CHARTER SCHOOL

OTHER FINANCIAL INFORMATION



MENGEL METZGER BARR & CO. LLP

Certified Public Accountants

INDEPENDENT AUDITORS' REPORT ON OTHER FINANCIAL INFORMATION

Board of Trustees
Brooklyn East Collegiate Charter School

Our report on our audit of the basic financial statements of Brooklyn East Collegiate Charter School as of June 30, 2011 and for the period from February 23, 2009 (date of inception) to June 30, 2011 appears on page 3. That audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The financial information hereinafter is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Mengel, Metzger, Barr & Co. LLP

Rochester, New York
October 18, 2011

BROOKLYN EAST COLLEGIATE CHARTER SCHOOL

SCHEDULE OF ACTIVITIES

YEAR ENDED JUNE 30, 2011 AND THE PERIOD FROM
FEBRUARY 23, 2009 (DATE OF INCEPTION) TO JUNE 30, 2010

	<u>Year ended June 30, 2011</u>	<u>Period from February 23, 2009 (date of inception) to June 30, 2010</u>	<u>Total</u>
State and local per pupil operating revenue	\$ 1,166,598	\$ -	\$ 1,166,598
Government grants	353,409	-	353,409
Contributions	245,243	235,000	480,243
Other income	<u>25</u>	<u>2</u>	<u>27</u>
TOTAL OPERATING REVENUE AND SUPPORT	1,765,275	235,002	2,000,277
Salaries	875,639	154,192	1,029,831
Payroll taxes and employee benefits	140,158	11,105	151,263
Occupancy	94,198	-	94,198
Repairs and maintenance	4,497	-	4,497
Textbooks	4,868	-	4,868
Instructional supplies and assessments	60,392	-	60,392
Computer and technology supplies	79,884	230	80,114
Student enrichment and services	45,996	-	45,996
Professional development	41,744	27,860	69,604
Professional services	22,698	1,200	23,898
Telephone	12,990	1,712	14,702
Insurance	13,957	-	13,957
Management fees	132,696	-	132,696
Office expense	24,661	1,493	26,154
Depreciation and amortization	17,233	-	17,233
Other	<u>2,775</u>	<u>-</u>	<u>2,775</u>
TOTAL EXPENSES	<u>1,574,386</u>	<u>197,792</u>	<u>1,772,178</u>
CHANGE IN NET ASSETS	<u>\$ 190,889</u>	<u>\$ 37,210</u>	<u>\$ 228,099</u>

BROOKLYN EAST COLLEGIATE CHARTER SCHOOL

REPORT REQUIRED BY GOVERNMENT AUDITING STANDARDS



MENGEL METZGER BARR & CO. LLP

Certified Public Accountants

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 East Collegiate Charter School

We have audited the financial statements of Brooklyn East Collegiate Charter School (the "Charter School") as of June 30, 2011 and for the period from February 23, 2009 (date of inception) to June 30, 2011, and have issued our report thereon dated October 18, 2011. 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 Brooklyn East Collegiate Charter 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 Brooklyn East Collegiate Charter School's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Charter School's internal control over financial reporting.

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.

Our consideration of internal control over financial reporting 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 deficiencies, 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. However, we identified a certain deficiency in internal control over financial reporting, described in the accompanying schedule of findings and responses, item 2011-1, to be a significant deficiency in internal control over financial reporting. 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Brooklyn East Collegiate Charter 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*.

We noted certain matters that we reported to management of Brooklyn East Collegiate Charter School in a separate letter dated October 18, 2011.

The Charter School's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. We did not audit the Charter School's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board of Trustees, management, federal, state and local awarding agencies, The Charter Schools Institute of the State University of New York and the State Education Department of the State University of New York and others within the Charter School and is not intended to be and should not be used by anyone other than these specified parties.

Mengel, Metzger, Barw & Co. LLP

Rochester, New York
October 18, 2011

BROOKLYN EAST COLLEGIATE CHARTER SCHOOL

SCHEDULE OF FINDINGS AND RESPONSES

FOR THE PERIOD FROM FEBRUARY 23, 2009 (DATE OF INCEPTION)
TO JUNE 30, 2011

Finding 2011-1

Statement of condition

We noted during our audit a significant misstatement of receivables and revenue related to the Federal Title I grant revenue.

Criteria and effect of conditions

There was an error in recording the Federal Title I grant revenue. The approved budgeted amounts were recorded rather than the funds available to the Charter School which led to revenue and accounts receivable being overstated. This is considered to be a significant deficiency.

Recommendation

We recommend the Federal Title I grant revenue be reviewed thoroughly for accuracy on an annual basis.

Management response

The Director of Finance will thoroughly review the year-end Title I allocations invoices to ensure accurate financial reporting.