

BROOKLYN PROSPECT CHARTER SCHOOL  
(A Not-For-Profit Corporation)

FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

BROOKLYN PROSPECT CHARTER SCHOOL  
(A Not-For-Profit Corporation)  
FINANCIAL STATEMENTS  
JUNE 30, 2015 AND 2014

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INDEPENDENT AUDITORS' REPORT

TO THE BOARD OF TRUSTEES OF  
BROOKLYN PROSPECT CHARTER SCHOOL

***Report on the Financial Statements***

We have audited the accompanying financial statements of Brooklyn Prospect Charter School (the "School") (a not-for-profit corporation), which comprise the statement of financial position as of June 30, 2015, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

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

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

***Auditors' Responsibility***

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the School'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 School'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 the School as of June 30, 2015, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## ***Report on Summarized Comparative Information***

We have previously audited the School's 2014 financial statements, and our report dated October 21, 2014, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2014, is consistent, in all material respects, with the audited financial statements from which it has been derived.

## ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 21, 2015, on our consideration of the School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control over financial reporting and compliance.

  
FRUCHTER ROSEN & COMPANY, P.C.  
Certified Public Accountants

New York, New York  
October 21, 2015

BROOKLYN PROSPECT CHARTER SCHOOL  
(A Not-For-Profit Corporation)  
STATEMENTS OF FINANCIAL POSITION  
JUNE 30,

	2015	2014
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 131,222	\$ 250,845
Grants and contract receivables	687,216	1,553
Due from related party	-	5,000
Prepaid expenses and other current assets	198,908	135,795
Total current assets	1,017,346	393,193
Other assets:		
Property and equipment, net of accumulated depreciation and amortization of \$1,384,513 and \$902,566, respectively	3,749,171	2,952,420
Security deposit	417,000	217,000
Restricted cash	75,165	75,091
Total other assets	4,241,336	3,244,511
<b>TOTAL ASSETS</b>	<b>\$ 5,258,682</b>	<b>\$ 3,637,704</b>
 <b>LIABILITIES AND UNRESTRICTED NET ASSETS</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 216,549	\$ 191,362
Accrued payroll and payroll taxes	-	7,717
Due to related party	200,000	-
Refundable advances	18,549	-
Deferred revenue	-	87,158
Total current liabilities	435,098	286,237
Deferred rent	1,984,353	1,428,219
Total liabilities	2,419,451	1,714,456
Unrestricted net assets	2,839,231	1,923,248
<b>TOTAL LIABILITIES AND UNRESTRICTED NET ASSETS</b>	<b>\$ 5,258,682</b>	<b>\$ 3,637,704</b>

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

BROOKLYN PROSPECT CHARTER SCHOOL  
(A Not-For-Profit Corporation)  
STATEMENTS OF ACTIVITIES  
FOR THE YEARS ENDED JUNE 30,

	2015	2014
Revenue and support:		
State and local per pupil operating revenue		
General and special education	\$ 12,447,097	\$ 9,795,889
Facilities	494,631	-
Federal grants	408,841	175,659
Federal E-Rate and IDEA	125,539	39,709
State and city grants	686,897	34,443
Contributions from related party	456,819	112,459
Donated services	78,597	-
After school program	152,867	-
Field trips and events	148,754	-
Other income	161,321	59,373
	15,161,363	10,217,532
Expenses:		
Program services:		
Regular education	8,954,440	6,870,495
Special education	2,238,616	1,717,624
Total program services	11,193,056	8,588,119
Supporting services:		
Management and general	2,839,345	1,954,150
Fundraising	212,979	184,914
	14,245,380	10,727,183
Changes in unrestricted net assets	915,983	(509,651)
Unrestricted net assets - beginning of year	1,923,248	2,432,899
Unrestricted net assets - end of year	\$ 2,839,231	\$ 1,923,248

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

BROOKLYN PROSPECT CHARTER SCHOOL  
(A Not-For-Profit Corporation)  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED JUNE 30,

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in unrestricted net assets	\$ 915,983	\$ (509,651)
Adjustments to reconcile changes in unrestricted net assets to net cash provided by operating activities:		
Depreciation and amortization	483,722	390,538
Loss on disposal of property and equipment	702	2,731
(Increase) Decrease in certain assets:		
Grants and contract receivables	(685,663)	121,639
Due from related party	5,000	(5,000)
Prepaid expenses and other current assets	(63,113)	(29,100)
Security deposit	(200,000)	-
Restricted cash	(74)	(89)
Increase (Decrease) in certain liabilities:		
Accounts payable and accrued expenses	25,187	34,349
Accrued payroll and payroll taxes	(7,717)	(9,731)
Due to related party	200,000	-
Refundable advance	18,549	-
Deferred revenue	(87,158)	87,158
Deferred rent	556,134	761,368
NET CASH PROVIDED BY OPERATING ACTIVITIES	1,161,552	844,212
CASH FLOWS FROM INVESTING ACTIVITY		
Purchases of property and equipment	(1,281,175)	(1,209,486)
NET (DECREASE) IN CASH AND CASH EQUIVALENTS	(119,623)	(365,274)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	250,845	616,119
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 131,222	\$ 250,845

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

BROOKLYN PROSPECT CHARTER SCHOOL  
(A Not-For-Profit Corporation)  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015 AND 2014

NOTE 1 - PRINCIPAL BUSINESS ACTIVITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization

Brooklyn Prospect Charter School (the “School”) is an educational corporation that operates a charter school in the borough of Brooklyn, New York. On July 28, 2008, the Board of Regents of the University of the State of New York granted the School a provisional charter valid for a term of five years and renewable upon expiration. On December 28, 2014, the Board of Regents granted the School a full-term renewal to the charter for a period of five years effective until July 31, 2019. The School’s mission is to pair students with excellent teachers in a college preparatory environment using the pillars of international baccalaureate program. The School prepares students for success as global citizens and helps students develop the love of learning that provides the foundation for personal and professional success. In the 2014-2015 academic year, the School operated classes for approximately 762 students in grades kindergarten and first and sixth through eleventh.

Tax Status

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) and a similar provision under New York State income tax laws. The School has also been classified as an entity that is not a private foundation within the meaning of Section 509(a) and qualifies for deductible contributions as provided in Section 170(b)(1)(A)(ii). The School is subject to income taxes only on net unrelated business income. The School did not have any net unrelated business income for the years ended June 30, 2015 and 2014.

The School’s accounting policy provides that a tax expense or benefit from an uncertain tax position may be recognized when it is more likely than not that the position will be sustained upon examination, including resolutions of any related appeals or litigation processes, based on the technical merits. The School has no uncertain tax positions resulting in an accrual of tax expense or benefit.

IRS Forms 990 filed by the School are subject to examination by the Internal Revenue Service up to three years from the extended due date of each return. Forms 990 filed by the School are no longer subject to examination for the fiscal years ended June 30, 2011, and prior.

Basis of Presentation

The financial statement presentation follows the requirements of the Financial Accounting Standards Board (“FASB”) in its Accounting Standards Codification (“ASC”) No. 958-205 which provides guidance for the classification of net assets. The amounts for each of the three classes of net assets are based on the existence or absence of donor-imposed restrictions described as follows:

BROOKLYN PROSPECT CHARTER SCHOOL  
(A Not-For-Profit Corporation)  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015 AND 2014

NOTE 1 - PRINCIPAL BUSINESS ACTIVITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation (Continued)

Unrestricted

Net assets of the School whose use has not been restricted by an outside donor or by law. They are available for any use in carrying out the operations of the School.

Temporarily Restricted

Net assets of the School whose use has been limited by donor-imposed stipulations that either expire with the passage of time or can be fulfilled and removed by actions of the School. When such stipulations end or are fulfilled, such temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

Permanently Restricted

Net assets of the School whose use has been permanently limited by donor-imposed restrictions. Such assets include contributions required to be invested in perpetuity, the income from which is available to support charitable purposes designated by the donors.

The School had no temporarily or permanently restricted net assets at June 30, 2015 and 2014.

Revenue and Support

Contributions are recognized when the donor makes a promise to give to the School that is, in substance, unconditional. Grants and other contributions of cash are reported as temporarily restricted support if they are received with donor stipulations. Restricted contributions and grants that are made to support the School's current year activities are recorded as unrestricted revenue. Contributions of assets other than cash are recorded at their estimated fair value.

Revenue from the state and local governments resulting from the School's charter status and based on the number of students enrolled is recorded when services are performed in accordance with the charter agreement. Federal and other state and local funds are recorded when expenditures are incurred and billable to the government agency.

Deferred Revenue

The School records deferred revenue until related services are performed, at which time they are recognized as revenue. The balance of \$87,158 at June 30, 2014, consisted of amounts received for a 2015 field trip and was recognized as revenue during the year ended June 30, 2015.

BROOKLYN PROSPECT CHARTER SCHOOL  
(A Not-For-Profit Corporation)  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015 AND 2014

NOTE 1 - PRINCIPAL BUSINESS ACTIVITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Cash and Cash Equivalents

For the purpose of the statements of cash flows, the School considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Concentration of Credit Risk

Financial instruments which potentially subject the School to concentrations of credit risk are cash and cash equivalents. The School places its cash and cash equivalents on deposit in what it believes to be highly credited financial institutions. Cash balances may exceed the FDIC insured levels of \$250,000 per institution at various times during the year. The School believes that there is little risk in any losses and has not experienced any losses in such accounts.

Property and Equipment

Purchased property and equipment are recorded at cost. Maintenance and repairs are expensed as incurred. All property and equipment purchased with government funding, whereas the government agency retains legal title to the long lived asset, is expensed as incurred. Depreciation is not recorded on construction-in-progress until the property and equipment is placed into service. Depreciation and amortization is provided on the straight line method over the estimated useful lives as follows:

Computers and Equipment	5 years
Furniture and Fixtures	7 years
Software	3 years
Leasehold Improvements	Useful life of lease

Refundable Advances

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

Reclassifications

Certain 2014 accounts have been reclassified to conform to the 2015 financial statement presentation. The reclassifications have no effect on 2014 total assets, liabilities, net assets, and changes in net assets.

BROOKLYN PROSPECT CHARTER SCHOOL  
(A Not-For-Profit Corporation)  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015 AND 2014

NOTE 1 - PRINCIPAL BUSINESS ACTIVITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Comparative Financial Information

The accompanying statements of activities and schedule of functional expenses are presented with summarized comparative information. Such prior year information is not presented by net asset class in the statements of activities or by functional category in the schedule of functional expenses. Accordingly, such information should be read in conjunction with the School's 2014 financial statements from which the summarized information was derived.

NOTE 2 - GRANTS AND CONTRACT RECEIVABLES

Grants and contract receivables consist of federal, state, and city entitlements and grants. The School expects to collect these receivables within one year.

NOTE 3 - PROPERTY AND EQUIPMENT

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

	2015	2014
Computers and Equipment	\$ 1,109,455	\$ 869,025
Furniture and Fixtures	998,629	878,088
Software	33,744	33,744
Leasehold Improvements	2,933,132	2,074,129
Construction-in-Progress	58,724	-
	5,133,684	3,854,986
Less Accumulated Depreciation and Amortization	(1,384,513)	(902,566)
	\$ 3,749,171	\$ 2,952,420

Depreciation expense was \$483,722 and \$390,538 for the years ended June 30, 2015 and 2014, respectively.

For the years ended June 30, 2015 and 2014, the School had a loss on disposal of property and equipment in the amounts of \$702 and \$2,731, respectively.

Construction in progress at June 30, 2015 is comprised of architect fees and other soft costs for the planning, development, and construction of the middle school's permanent facility.

NOTE 4 - CONTINGENCY

Certain grants and contracts may be subject to audit by the funding sources. Such audits might result in disallowances that, 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.

BROOKLYN PROSPECT CHARTER SCHOOL  
(A Not-For-Profit Corporation)  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015 AND 2014

NOTE 5 - REVENUE CONCENTRATION

The School receives a substantial portion of its support and revenue from the New York City Department of Education. If the charter school laws were modified, reducing or eliminating these revenues, the School's finances could be materially adversely affected.

NOTE 6 - FUNCTIONAL ALLOCATION OF EXPENSE

Directly identifiable expenses are charged to programs and supporting services. Expenses related to more than one function are charged to programs and supporting services on the basis of periodic time and expense studies. Management and general expense includes those expenses that are not directly identifiable with any other specific function, but provide for the overall support and direction of the School.

NOTE 7 - RETIREMENT PLAN

During the fiscal year 2015, the School maintained a qualified 401(K) plan. Under the plan, the School matched employee contributions up to 4% of the annual compensation covered under the employment arrangement with ADP Retirement Services. Employee match for the years ended June 30, 2015 and 2014 amounted to \$157,429 and \$111,637, respectively.

NOTE 8 - EMPLOYMENT CONTRACT

The School entered into a co-employment arrangement with ADP Total Source, Inc., a professional employment organization, effective August 1, 2009. Under the co-employment arrangement, ADP assumes certain employment responsibilities, including the payment and reporting employees' wages and payroll taxes. In June 2015, the School canceled their agreement with ADP Total Source, Inc. and no longer operates as part of a co-employment relationship.

NOTE 9 - DONATED SERVICES

Donated services are recognized as contributions in accordance with FASB ASC 958-605, "Accounts for Contributions Received and Contributions Made," if the services (a) create or enhance non-financial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the School.

One law firm has provided legal services to the School at no charge. The value of these services meets the criteria for recognition in the financial statements and is recorded at fair value. For the years ended June 30, 2015 and 2014, the value of such donated services amounted to \$78,597 and \$0-, respectively.

BROOKLYN PROSPECT CHARTER SCHOOL  
(A Not-For-Profit Corporation)  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015 AND 2014

NOTE 10 - COMMITMENTS

Facilities

In April 2012, the School signed a lease with The Roman Catholic Church of the Immaculate Heart of Mary for its middle school classrooms and office space under a non-cancelable lease expiring June 30, 2032, with an option to extend the lease for an additional ten years. Under the terms of the lease, the School paid a security deposit in the amount of \$142,000. The School moved into its permanent facility on September 1, 2012 and commenced paying rent.

In May 2013, the School signed a lease with The Sisters of Saint Joseph for its elementary school classrooms and office space under a non-cancelable lease expiring June 30, 2023, with two options to extend the lease for an additional five years each. Under the terms of the lease, the School paid a security deposit in the amount of \$75,000. The School moved into this new facility on July 1, 2013, and commenced paying rent.

Future minimum lease payments under the preceding leases are as follows:

Year ending June 30,	2016	\$ 1,664,820
	2017	1,724,665
	2018	1,970,846
	2019	2,040,976
	2020	2,040,976
	Thereafter	<u>23,021,744</u>
		<u>\$ 32,464,027</u>

The School recognizes rent expense on a straight-line basis over the term of the leases. Rent expense in excess of payments is recorded as deferred rent in the accompanying statements of financial position. Rent expense under the leases for the years ended June 30, 2015 and 2014 amounted to \$2,001,803 and \$1,908,051, respectively.

In June 2015, the School signed a lease with Power Realty Partners for its classrooms and office space under a non-cancelable lease for their second middle school expiring June 30, 2035. Under this lease, the School has an option of extending the lease an additional 10 years. Under the terms of the lease, the School paid a security deposit in the amount of \$200,000. The School is in the process of renovating this location and rent will commence once the School moves into this facility. The future minimum lease payments under this lease amounted to \$25,990,344 for the 20 year commitment. Rent expense will be recognized on a straight line basis when the School moves into this facility.

BROOKLYN PROSPECT CHARTER SCHOOL  
(A Not-For-Profit Corporation)  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015 AND 2014

NOTE 10 - COMMITMENTS (Continued)

Leased equipment

The School leases various copy machines under non-cancelable operating leases expiring in various years through 2018. Minimum future rental payments under non-cancelable operating leases are as follows:

Year ending June 30, 2016	\$ 48,612
2017	44,628
2018	36,660
2019	<u>1,546</u>
	<u>\$ 131,446</u>

NOTE 11 - RELATED PARTY TRANSACTIONS

The School is an affiliate of Prospect Schools Inc. ("Prospect"), a New York State not-for-profit corporation. Prospect provides financial support and other services to the School. For the years ended June 30, 2015 and 2014, the School received a contribution of \$456,819 and \$112,459, respectively, from Prospect to cover specific program expenses. At June 30, 2015 and 2014, the outstanding balance due (to)/from Prospect amounted to \$(200,000) and \$5,000, respectively.

NOTE 12 - SUBSEQUENT EVENTS

In preparing these financial statements, the School has evaluated events and transactions for potential recognition or disclosure through October 21, 2015, the date the financial statements were available to be issued.

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INDEPENDENT AUDITORS' REPORT  
ON SUPPLEMENTARY INFORMATION

TO THE BOARD OF TRUSTEES OF  
BROOKLYN PROSPECT CHARTER SCHOOL

We have audited the financial statements of Brooklyn Prospect Charter School (a not-for-profit-corporation), as of and for the year ended June 30, 2015, and have issued our report thereon dated October 21, 2015, which contained an unmodified opinion on those financial statements. Our audit was performed for the purpose of forming an opinion on the financial statements as a whole. The schedule of functional expenses is presented for the purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

  
FRUCHTER ROSEN & COMPANY, P.C.  
Certified Public Accountants

New York, New York  
October 21, 2015

BROOKLYN PROSPECT CHARTER SCHOOL  
(A Not-For-Profit Corporation)  
SCHEDULE OF FUNCTIONAL EXPENSES  
FOR THE YEARS ENDED JUNE 30,

	2015						
	Regular Education	Special Education	Total Program Service	Management and General	Fundraising	Total	2014
Salaries	\$ 4,873,609	\$ 1,218,408	\$ 6,092,017	\$ 1,552,156	\$ 57,330	\$ 7,701,503	\$ 5,335,701
Employee benefits and payroll taxes	1,108,271	277,068	1,385,339	253,415	50,683	1,689,437	1,169,089
Office expenses	114,260	28,565	142,825	71,704	3,200	217,729	193,577
Accounting and auditing	-	-	-	22,750	-	22,750	18,250
Legal fees	-	-	-	5,061	-	5,061	2,500
Donated legal services	-	-	-	78,597	-	78,597	-
Payroll service	165,572	41,393	206,965	37,860	7,572	252,397	159,944
Accountability consultant	9,600	2,400	12,000	12,000	-	24,000	24,000
General and administrative consultant	13,463	3,366	16,829	79,939	127	96,895	61,700
Program curriculum development	18,400	4,600	23,000	-	-	23,000	23,000
Other professional fees	148,132	37,033	185,165	17,849	2,547	205,561	299,560
Professional development	13,607	3,402	17,009	6,459	-	23,468	27,484
Student and staff meals	181,941	45,485	227,426	2,285	-	229,711	222,146
Student and staff special events	24,247	6,062	30,309	6,524	-	36,833	19,718
Marketing and recruiting	20,803	5,201	26,004	4,757	951	31,712	17,114
Parent teacher organization	-	-	-	3,424	10,272	13,696	7,915
Curriculum and classroom	436,058	109,014	545,072	-	-	545,072	269,839
Insurance	38,844	9,711	48,555	25,014	-	73,569	63,053
Facility expense	1,408,624	352,156	1,760,780	544,366	64,419	2,369,565	2,319,398
Technology	44,141	11,035	55,176	38,615	564	94,355	79,322
Miscellaneous	17,546	4,387	21,933	4,012	802	26,747	23,335
Depreciation and amortization	317,322	79,330	396,652	72,558	14,512	483,722	390,538
Total expenses	<u>\$ 8,954,440</u>	<u>\$ 2,238,616</u>	<u>\$ 11,193,056</u>	<u>\$ 2,839,345</u>	<u>\$ 212,979</u>	<u>\$ 14,245,380</u>	<u>\$ 10,727,183</u>

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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*

TO THE BOARD OF TRUSTEES OF  
BROOKLYN PROSPECT CHARTER SCHOOL

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 Brooklyn Prospect Charter School (the "School") (a not-for-profit-corporation), which comprise the statement of financial position as of June 30, 2015, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 21, 2015.

***Internal Control Over Financial Reporting***

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

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the School'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.

TO THE BOARD OF TRUSTEES OF  
BROOKLYN PROSPECT CHARTER SCHOOL

***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether the School'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*.

We noted certain matters that we reported to the management of the School in a separate letter dated October 21, 2015.

***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 School'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 School's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

  
FRUCHTER ROSEN & COMPANY, P.C.  
Certified Public Accountants

New York, New York  
October 21, 2015

BROOKLYN PROSPECT CHARTER SCHOOL

MANAGEMENT LETTER

JUNE 30, 2015

FRUCHTER ROSEN & COMPANY, P.C.  
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October 21, 2015

Audit Committee of the Board of Trustees of  
Brooklyn Prospect Charter School  
3002 Fort Hamilton Parkway  
Brooklyn N.Y. 11218

In planning and performing our audit of the financial statements of Brooklyn Prospect Charter School (the "School") as of and for the year ended June 30, 2015, in accordance with auditing standards generally accepted in the United States of America, we considered the School's internal control over financial reporting (internal control) as a basis for designing 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 School's financial statements will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses. 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.

Exhibit I accompanying this letter summarizes an observation for the year ended June 30, 2015 that we determined did not constitute a significant deficiency or material weakness. Exhibit II summarizes corrective action not taken on a prior a year observation and Exhibit III summarizes corrective action taken on a prior year observation. Management's response to the observations has not been subjected to the auditing procedures applied in the audit of the financial statements and accordingly, we express no opinion on it.

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

We appreciate your cooperation and the assistance we received during the course of our audit.

  
FRUCHTER ROSEN & COMPANY, P.C.  
Certified Public Accountants

New York, New York  
October 21, 2015

BROOKLYN PROSPECT CHARTER SCHOOL  
MANAGEMENT LETTER  
JUNE 30, 2015

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BROOKLYN PROSPECT CHARTER SCHOOL  
MANAGEMENT LETTER  
JUNE 30, 2015

EXHIBIT I – CURRENT YEAR OBSERVATION

A. INCOMPLETE STUDENT FILES

Observation

We noted the following exceptions during our test of 25 student files:

- Four student files were missing a student enrollment form.
- One student file was missing the student ethnic identification survey.
- One student file was missing the home language identification form.
- Three student files were the missing student medical information.

Recommendation

In an effort to ensure that student records are complete, we recommend that the School's checklist should be utilized periodically to insure that information is complete and updated for each student file.

Management's Response

We have always maintained a checklist, but due to the increasing volume and some staff turnover in this area, we were not able to achieve 100% student file completion for FY15. For the 2015-16 school year, we have significantly increased our operational capacity at the school level to include a separate Registrar for each of our schools, and have implemented new systems for processing and tracking enrollment paperwork as a part of this shift to more localized management of student information.

BROOKLYN PROSPECT CHARTER SCHOOL  
MANAGEMENT LETTER  
JUNE 30, 2015

EXHIBIT II – CORRECTIVE ACTION NOT TAKEN ON PRIOR YEAR OBSERVATION

In conjunction with performing the audit of the School’s financial statements for the year ended June 30, 2015, we followed up on the status of implementation of audit recommendations made during the year ended June 30, 2014.

A. APPROVAL OF CREDIT CARD PURCHASES

Observation

Even though the majority of credit card purchases tested were adequately supported by receipts, invoices, and other documentation, we noted that many of the purchase request forms were signed after the purchase date. The School explained that the requests are often made for repeat purchases and that the approvals are made verbally, with the signing of the purchase request form taking place later as part of a batch signing of various documents.

Recommendation

We recommend that in circumstances where the School cannot obtain a written approval prior to a purchase, that the School obtain approvals by e-mail rather than verbally so as to retain a record of the authorization that would evidence the actual timing of approval.

Current Year Status

During our 2015 audit, we noted that the School improved with obtaining proper approvals prior to credit card purchases. There remains a considerable amount of purchases where approvals were obtained after the purchase dates.

Update Management’s Response

Credit card management continues to be an area of focus for the organization. To better support our operations on the ground, our Board of Trustees approved a change to our Financial Policies & Procedures in June 2015 to allow credit card purchases of less than \$250 to be made without prior approval. The rationale behind this change is that a primary intent of our credit cards is incidental and emergency purchases by Principal and Director level staff, and needing to obtain prior approval is in direct opposition to that intent. Moving forward, we believe this will greatly reduce our number of marks in this area.

In addition, we are working to make some additional policy change proposals that will impose greater penalty for cardholders around lost receipts and sales tax charges – two related areas we are also aiming to improve.

BROOKLYN PROSPECT CHARTER SCHOOL  
MANAGEMENT LETTER  
JUNE 30, 2015

EXHIBIT III – CORRECTIVE ACTION TAKEN ON PRIOR YEAR OBSERVATION

A. GENERAL LEDGER MAINTENANCE

Observation

Although schedules were prepared for our audit fieldwork, these schedules and reconciliations were not prepared and updated throughout the fiscal year ended June 30, 2014. This resulted in various adjustments to the general ledger during the year-end closing of books and records, which prolonged the completion of the audit. These adjustments could have been minimized had accounts been analyzed and compared with the general ledger on a regular basis.

Recommendation

Accounts should be analyzed and reconciled with the general ledger on a monthly or quarterly basis. Periodic in-depth account analysis and reconciliations will help the School to detect and correct errors in the general ledger on a timely basis. Management should oversee the accounting functions throughout the year.

Corrective Action Taken

During our 2015 audit, we noted that accounts were analyzed and reconciled during the year resulting in minimal audit adjustments.

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INDEPENDENT ACCOUNTANT'S REPORT ON  
APPLYING AGREED UPON PROCEDURES

To the Board of Trustees of Brooklyn Prospect Charter School:

We have performed the procedures identified below, which were agreed to by the management of Brooklyn Prospect Charter School (the "School") and the New York State Education Department ("NYSED") solely to assist the specified parties in evaluating the School's assertion to NYSED that it has maintained compliance with the requirements of the CSP grant and Federal and NYSED guidelines in managing the CSP grant for the year ended June 30, 2015.

This agreed-upon procedures engagement was performed in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the specific users of the report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures we performed and our results are as follows:

Procedure #1: We will obtain the detail of expenditures incurred for the period under review relating to the CSP grant from the School's accounting software and reconcile to the grant revenue recorded by the School. If the CSP grant revenue does not equal the grant expenditures, we will investigate the differences.

Result: No exceptions noted.

Procedure #2: We will obtain the NYSED approved CSP grant award information, including the budget and any amendments, to determine if the revenue and expenditures recorded for the period appear reasonable.

Result: No exceptions noted.

Procedure #3: We will select a sample from the detail of expenditures obtained in Procedure #1.

- a. Payroll – We will select 10 items or 10% of the total number of payroll items charged to the grant, whichever is less.
- b. Other expenses – We will select 10 items or 10% of the total number of items charged to the grant, whichever is less.

c. Using the above selected items, we will:

- i. Determine if the expenditure is in accordance with the purpose of the grant and that pre-opening expenditures are charged to pre-opening periods.
- ii. Determine if the expenditure falls into an approved budget category.
- iii. Determine if the expenditure was charged to the appropriate fiscal period.

Result: No exceptions noted.

Procedure #4: We will obtain FS-25 form(s) submitted to NYSED during the period under review and perform the following:

- a. Trace expenditures selected in Procedure #3 to requests for reimbursement. Determine that items requested for reimbursement had previously been expended or were expended within a month following the request for reimbursement. If items have not yet been requested for reimbursement, inquire of responsible School officials as to the plan for requesting reimbursement, and determine if a receivable is recorded, if appropriate.
- b. If FS-25 forms included amounts on Line 4 (Cash Expenditures Anticipated During Next Month), we will select one FS-25 and determine if funds were expended within 1 month following the date of the request.

Result: No exceptions noted.

We were not engaged to, and did not, conduct an examination, the objective of which would be the expression of an opinion on Brooklyn Prospect Charter School's compliance with the requirements of the CSP grant. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the use of Brooklyn Prospect Charter School and the New York State Education Department, and it is not intended to be and should not be used by anyone other than the specified parties.

  
FRUCHTER ROSEN & COMPANY, P.C.  
Certified Public Accountants

New York, New York  
October 21, 2015