

BROOKLYN PROSPECT CHARTER SCHOOL
INDEPENDENT AUDITOR'S REPORT ON
COMMUNICATION OF INTERNAL CONTROL MATTERS
JUNE 30, 2016

FRUCHTER ROSEN & COMPANY, P.C.
CERTIFIED PUBLIC ACCOUNTANTS
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October 25, 2016

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, 2016, 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, 2016 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 25, 2016

BROOKLYN PROSPECT CHARTER SCHOOL
MANAGEMENT LETTER
JUNE 30, 2016

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BROOKLYN PROSPECT CHARTER SCHOOL
MANAGEMENT LETTER
JUNE 30, 2016

EXHIBIT I – CURRENT YEAR OBSERVATION

A. BOARD SIGNATURE MISSING ON CHECK GREATER THAN \$20,000

Observation

The Fiscal Policies and Procedures manual calls for a second Board Treasurer signature on checks greater than \$20,000. During our test of cash disbursements, we noted that one out of eight samples tested did not contain a Board Treasurer signature.

Recommendation

The School should strictly comply with their “cash disbursements” policies.

Management response

Recognizing the operational burden of requiring physical signatures from Trustees in executing often time-sensitive payments, and given our policies already require electronic Trustee approval of purchases greater than \$20k, the Board voted on September 21, 2016 to amend this policy. Beginning in FY2017, any two Brooklyn Prospect signatories will be able to sign checks greater than \$20k.

BROOKLYN PROSPECT CHARTER SCHOOL
MANAGEMENT LETTER
JUNE 30, 2016

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, 2016, we followed up on the status of implementation of audit recommendations made during the year ended June 30, 2015.

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

In June 2015 the Financial Policies and Procedures manual was updated to allow credit card purchases of less than \$250 to be made without prior approval. During our 2015 testing of credit card purchases over \$250, we noted that approximately \$11,000 in credit card purchases were approved after the purchase was made.

Update Management’s Response

Credit card accountability continues to be an area of growth for us. We believe that, since amending our policy to require pre-approval only on purchases greater than \$250, we have seen improvement. However, we are committed to improving further. For FY2017, we have made some small procedural adjustments which we feel will have impact, such as designating an administrative staff member at each school to support our principals in maintaining the proper paperwork and approvals.

BROOKLYN PROSPECT CHARTER SCHOOL
MANAGEMENT LETTER
JUNE 30, 2016

EXHIBIT III – CORRECTIVE ACTION TAKEN ON PRIOR YEAR OBSERVATION

B. 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.

Corrective Actions Taken

During 2016 we noted student files were properly maintained.

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CERTIFIED PUBLIC ACCOUNTANTS
156 WEST 56TH STREET
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October 25, 2016

To the Audit Committee of the Board of Trustees of
Brooklyn Prospect Charter School
80 Willoughby Street
Brooklyn NY 11201

We have audited the financial statements of Brooklyn Prospect Charter School (the "School") for the year ended June 30, 2016, and have issued our report thereon dated October 25, 2016. Professional standards require that we provide you with the following information related to our audit.

Our Responsibilities under U.S. Generally Accepted Auditing Standards and *Government Auditing Standards*

As stated in our engagement letter dated March 10, 2016, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

As part of our audit, we will consider the internal control of Brooklyn Prospect Charter School. Such considerations are solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we will perform tests of Brooklyn Prospect Charter School's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests is not to provide an opinion on compliance with such provisions.

Planned Scope and Timing of the Audit

We performed our audit according to the plan previously communicated to you prior to commencement of our audit field work.

Auditor Independence

Fruchter Rosen & Company P.C. have complied with all relevant ethical requirements regarding independence.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Brooklyn Prospect Charter School are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended June 30, 2016. We noted no transactions entered into by the School during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Significant Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements are as follows:

- Collectability of grants and contracts receivables
- Useful lives of fixed assets
- Allocation of costs for the statement of functional expenses
- Estimated start date of the facility lease for the 2nd middle school

We evaluated the key factors and assumptions used to develop the above estimates in determining that it was reasonable in relation to the financial statement taken as a whole. The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. In addition, we are required to communicate with those charged with governance uncorrected misstatements and the effect that they may have on the opinion in the auditors' report, and request their correction. None of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 25, 2016.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the School’s financial statements or a determination of the type of auditors’ opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the School’s auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

We have issued a separate report to you dated October 25, 2016, communicating internal control related matters identified during the audit.

Other Matters

This information is intended solely for the use of the Audit Committee, the Board of Trustees and management of Brooklyn Prospect Charter School and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,


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

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

FINANCIAL STATEMENTS

JUNE 30, 2016

(with comparative financial information for June 30, 2015)

FRUCHTER ROSEN & COMPANY, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

156 WEST 56TH STREET

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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, 2016, 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, 2016, 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 2015 financial statements, and our report dated October 21, 2015, 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, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 25, 2016, 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 25, 2016

BROOKLYN PROSPECT CHARTER SCHOOL
(A Not-For-Profit Corporation)
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2016
(with comparative financial information for June 30, 2015)

	2016	2015
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,692,833	\$ 131,222
Grants and contract receivables	353,702	687,216
Prepaid expenses and other current assets	95,909	198,908
Total current assets	2,142,444	1,017,346
Other assets:		
Property and equipment, net of accumulated depreciation and amortization of \$1,927,794 and \$1,384,513, respectively	4,190,019	3,749,171
Security deposit	417,000	417,000
Restricted cash	75,459	75,165
Total other assets	4,682,478	4,241,336
TOTAL ASSETS	\$ 6,824,922	\$ 5,258,682
 LIABILITIES AND UNRESTRICTED NET ASSETS		
Current liabilities:		
Accounts payable and accrued expenses	\$ 296,896	\$ 216,549
Due to related party	-	200,000
Refundable advances	15,612	18,549
Total current liabilities	312,508	435,098
Deferred rent	2,321,335	1,984,353
Total liabilities	2,633,843	2,419,451
Unrestricted net assets	4,191,079	2,839,231
TOTAL LIABILITIES AND UNRESTRICTED NET ASSETS	\$ 6,824,922	\$ 5,258,682

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 YEAR ENDED JUNE 30, 2016
(with summarized comparative financial information for the year ended June 30, 2015)

	2016	2015
Revenue and support:		
State and local per pupil operating revenue:		
General and special education	\$ 15,188,624	\$ 12,447,097
Facilities	925,805	494,631
Federal grants	499,264	534,380
State and city grants	657,549	686,897
Contributions from related party	1,041,069	456,819
Donated services	115,882	78,597
After school program	266,095	152,867
Field trips and events	58,841	148,754
Other income	129,900	161,321
	18,883,029	15,161,363
Expenses:		
Program services:		
Regular education	11,497,026	8,954,440
Special education	2,911,300	2,238,616
Total program services	14,408,326	11,193,056
Supporting services:		
Management and general	2,794,385	2,839,345
Fundraising	328,470	212,979
	17,531,181	14,245,380
Changes in unrestricted net assets	1,351,848	915,983
Unrestricted net assets - beginning of year	2,839,231	1,923,248
Unrestricted net assets - end of year	\$ 4,191,079	\$ 2,839,231

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

BROOKLYN PROSPECT CHARTER SCHOOL
(A Not-For-Profit Corporation)
STATEMENTS OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2016

(with summarized comparative financial information for the year ended June 30, 2015)

	2016						2015
	Program Services			Supporting Services			
	Regular Education	Special Education	Total	Management and General	Fundraising	Total	
Salaries	\$ 7,106,028	\$ 1,776,507	\$ 8,882,535	\$ 1,351,238	\$ 209,777	\$ 10,443,550	\$ 7,701,503
Employee benefits and payroll taxes	1,480,126	370,032	1,850,158	282,966	43,533	2,176,657	1,689,437
Office expenses	164,124	41,354	205,478	62,517	6,428	274,423	217,729
Accounting and auditing	-	-	-	30,250	-	30,250	22,750
Legal fees	-	-	-	5,345	-	5,345	5,061
Donated legal services	-	-	-	115,882	-	115,882	78,597
Payroll service	-	-	-	61,646	-	61,646	252,397
Accountability consultant	9,600	2,400	12,000	12,000	-	24,000	24,000
General and administrative consultant	43,086	10,772	53,858	64,995	-	118,853	96,895
Program curriculum development	-	-	-	-	-	-	23,000
Other professional fees	85,300	58,044	143,344	9,029	761	153,134	205,561
Professional development	40,835	10,209	51,044	7,806	1,201	60,051	23,468
Student and staff meals	173,348	43,337	216,685	43	-	216,728	229,711
Student and staff special events	69,683	17,421	87,104	4,448	691	92,243	36,833
Marketing and recruiting	-	-	-	45,210	-	45,210	31,712
Parent teacher organization	-	-	-	-	12,102	12,102	13,696
Curriculum and classroom	470,910	117,727	588,637	-	-	588,637	545,072
Insurance	-	-	-	92,275	-	92,275	73,569
Facility expense	1,406,148	351,537	1,757,685	535,485	40,805	2,333,975	2,369,565
Technology	54,639	13,660	68,299	26,355	1,607	96,261	94,355
Depreciation and amortization	369,539	92,385	461,924	70,646	10,869	543,439	483,722
Miscellaneous	23,660	5,915	29,575	16,249	696	46,520	26,747
Total expenses	\$ 11,497,026	\$ 2,911,300	\$ 14,408,326	\$ 2,794,385	\$ 328,470	\$ 17,531,181	\$ 14,245,380

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 YEAR ENDED JUNE 30, 2016
(with summarized comparative financial information for the year ended June 30, 2015)

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in unrestricted net assets	\$ 1,351,848	\$ 915,983
Adjustments to reconcile changes in unrestricted net assets to net cash provided by operating activities:		
Depreciation and amortization	543,439	483,722
(Gain) Loss on disposal of property and equipment	(115)	702
(Increase) Decrease in certain assets:		
Grants and contract receivables	333,514	(685,663)
Due from related party	-	5,000
Prepaid expenses and other current assets	102,999	(63,113)
Security deposit	-	(200,000)
Restricted cash	(294)	(74)
Increase (Decrease) in certain liabilities:		
Accounts payable and accrued expenses	80,347	25,187
Accrued payroll and payroll taxes	-	(7,717)
Due to related party	(200,000)	200,000
Refundable advance	(2,937)	18,549
Deferred revenue	-	(87,158)
Deferred rent	336,982	556,134
NET CASH PROVIDED BY OPERATING ACTIVITIES	2,545,783	1,161,552
CASH FLOWS FROM INVESTING ACTIVITY		
Purchases of property and equipment	(984,172)	(1,281,175)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,561,611	(119,623)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	131,222	250,845
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 1,692,833	\$ 131,222

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, 2016
(with comparative financial information for June 30, 2015)

NOTE 1 - ORGANIZATION 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 (the “Board of Regents”) 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 2015-2016 academic year, the School operated classes for approximately 922 students in grades kindergarten through second and sixth through twelfth.

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, 2016 and 2015.

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, 2012, and prior.

Basis of Presentation

The School’s financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. 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, 2016
(with comparative financial information for June 30, 2015)

NOTE 1 - ORGANIZATION 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, 2016 and 2015.

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.

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.

BROOKLYN PROSPECT CHARTER SCHOOL
(A Not-For-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016
(with comparative financial information for June 30, 2015)

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

Cash and Cash Equivalents

The School considers all highly liquid financial 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. As of June 30, 2016 account balances exceeded insured levels by approximately \$1,517,000. 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.

Comparative Financial Information

The accompanying statements of activities and 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 statements of functional expenses. Accordingly, such information should be read in conjunction with the School's 2015 financial statements from which the summarized information was derived.

Reclassifications

Certain 2015 accounts have been reclassified to conform to the 2016 financial statement presentation. The reclassifications have no effect on 2015 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, 2016
(with comparative financial information for June 30, 2015)

NOTE 2 - GRANTS AND CONTRACT RECEIVABLES

Grants and contract receivables consists 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 as of June 30,:

	<u>2016</u>	<u>2015</u>
Computers and Equipment	\$ 1,291,405	\$ 1,109,455
Furniture and Fixtures	1,119,586	998,629
Software	33,744	33,744
Leasehold Improvements	3,352,992	2,933,132
Construction-in-Progress	<u>320,086</u>	<u>58,724</u>
	6,117,813	5,133,684
Less Accumulated Depreciation and Amortization	<u>(1,927,794)</u>	<u>(1,384,513)</u>
	<u>\$ 4,190,019</u>	<u>\$ 3,749,171</u>

Depreciation expense was \$543,439 and \$483,722 for the years ended June 30, 2016 and 2015, respectively.

For the years ended June 30, 2016 and 2015, the School had a gain/(loss) on disposal of property and equipment in the amounts of \$115 and (\$702), respectively.

Construction in progress at June 30, 2016 is comprised of architect fees and other soft costs for the planning, development, and construction of both the middle school's permanent facility and the roof and interior renovations of the elementary 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.

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.

BROOKLYN PROSPECT CHARTER SCHOOL
(A Not-For-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016
(with comparative financial information for June 30, 2015)

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 years ended June 30, 2016 and 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, 2016 and 2015 amounted to \$210,081 and \$157,429, respectively.

NOTE 8 - DONATED SERVICES

Donated services are recognized as contributions in accordance with FASB ASC No. 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, and (c) are measurable.

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, 2016 and 2015, the value of such donated services amounted to \$115,882 and \$78,597 respectively.

NOTE 9 - COMMITMENTS

Facilities

In April 2012, the School signed a lease with The Roman Catholic Church of the Immaculate Heart of Mary for its middle and high 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.

BROOKLYN PROSPECT CHARTER SCHOOL
(A Not-For-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016
(with comparative financial information for June 30, 2015)

NOTE 9 - COMMITMENTS (Continued)

Facilities (Continued)

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, 2037. 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. In the fall of 2016 the second middle school opened at a temporary space provided by the New York City Department of Education. The School expects to move into the permanent facility in August 2018.

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

Year ending June 30, 2017	\$	1,724,665
2018		3,050,525
2019		3,120,656
2020		3,120,656
2021		3,120,656
Thereafter		<u>42,652,392</u>
		<u>\$ 56,789,550</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 first two leases for both years ended June 30, 2016 and 2015 amounted to \$2,001,803.

Leased equipment

The School leases various copy machines under non-cancelable operating leases expiring in various years through 2020. Minimum future rental payments under non-cancelable operating leases are as follows:

Year ending June 30, 2017	\$	82,435
2018		82,435
2019		72,239
2020		<u>53,370</u>
		<u>\$ 290,479</u>

BROOKLYN PROSPECT CHARTER SCHOOL
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JUNE 30, 2016
(with comparative financial information for June 30, 2015)

NOTE 10 - 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, 2016 and 2015, the School received contributions of \$1,041,069 and \$456,819, respectively, from Prospect to cover specific program expenses. At June 30, 2016 and 2015, the outstanding balance due from/(to) Prospect amounted to \$-0- and \$(200,000), respectively.

NOTE 11 - SUBSEQUENT EVENTS

In preparing these financial statements, the School has evaluated events and transactions for potential recognition or disclosure through October 25, 2016, the date the financial statements were available to be issued.

On August 22, 2016, the School signed a lease agreement with Metrotech LLC 13 to be used as the School’s main office and a play space and after school activity center for its students. Under the terms of the lease, the School paid a security deposit in the amount of \$300,000 upon signing the agreement. The future minimum lease payments under this lease amounted to \$5,543,719 for the 17 year commitment. Under this lease, the School has an option of extending the lease an additional 5 years. Rent expense will be recognized on a straight line basis when the School moves into this facility.

FRUCHTER ROSEN & COMPANY, P.C.

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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, 2016, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 25, 2016.

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 25, 2016.

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 25, 2016

FRUCHTER ROSEN & COMPANY, P.C.

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INDEPENDENT AUDITORS' 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, 2016.

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 form(s) included amounts on Line 4 (Cash Expenditures Anticipated During Next Month), we will select one FS-25 and determine if funds were expended within a month following the date of the request.

Result: No exceptions noted.

Procedure #5: For schools with a weighted lottery during the period under review we will:

- a. Obtain documentation that the school received permission from the NYSED Charter School Office for the weighted lottery.
- b. Obtain the results of the weighted lottery.
 - Note that weighted lotteries must be conducted using the NYSED Weighted Lottery Generator (WLG). When the WLG is used, a copy of the 'lottery PDF' should be observed. (This PDF is generated after the WLG has conducted the lottery.)

Result: The School did not conduct a weighted lottery.

We were not engaged to, and did not, conduct an examination, the objective of which would be the expression of an opinion on the 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 the 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 25, 2016