

Brooklyn Prospect Charter School

Financial Statements and
Uniform Guidance Schedules
Together With Independent Auditors' Reports

June 30, 2017 and 2016

Brooklyn Prospect Charter School

Financial Statements and Uniform Guidance Schedules Together With Independent Auditors' Reports

June 30, 2017 and 2016

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Independent Auditors' Report

Board of Trustees
Brooklyn Prospect Charter School

Report on the Financial Statements

We have audited the accompanying financial statements of Brooklyn Prospect Charter School (the "School"), which comprise the statement of financial position as of June 30, 2017, 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, 2017, 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.

Prior Period Financial Statements

The summarized comparative financial statements as of June 30, 2016 and for the year then ended, were audited by other auditors who ceased operations. Those auditors expressed an unmodified opinion on those financial statements in their report dated October 25, 2016.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of activities by charter as of and for the year ended June 30, 2017 on page 14 is presented for purposes of additional analysis and is not a required part of the financial statements. The accompanying schedule of expenditures of federal awards on page 15 as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 27, 2017, 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the School's 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.

PKF O'Connor Davies, LLP
Harrison, New York
October 27, 2017

Brooklyn Prospect Charter School

Statements of Financial Position
June 30, 2017
(with comparative amounts at June 30, 2016)

	2017	2016
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 122,322	\$ 1,692,833
Grants and contract receivables	1,227,714	353,702
Prepaid expenses and other current assets	253,526	95,909
Total Current Assets	1,603,562	2,142,444
Property and equipment, net	4,804,446	4,190,019
Restricted cash	101,124	75,459
Security deposit	1,117,000	417,000
Due from related party	133,795	-
	6,156,365	4,682,478
	\$ 7,759,927	\$ 6,824,922
 LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable and accrued expenses	\$ 370,817	\$ 296,896
Refundable advances	125,062	15,612
Total Current Liabilities	495,879	312,508
Deferred rent	2,639,636	2,321,335
Total Liabilities	3,135,515	2,633,843
Net assets, unrestricted	4,624,412	4,191,079
	\$ 7,759,927	\$ 6,824,922

Brooklyn Prospect Charter School

Statement of Activities
Year Ended June 30, 2017
(with summarized totals for the year ended June 30, 2016)

	2017	2016
REVENUE AND SUPPORT		
State and local per pupil operating revenue		
General and special education	\$ 17,860,308	\$ 15,188,624
Facilities	1,105,833	925,805
Federal grants	811,400	363,448
E-Rate and IDEA	174,655	135,816
State and city grants	820,710	657,549
Contributions from related party	1,073,399	1,041,069
Donated services	173,580	115,882
After school program	346,957	266,095
Field trips and events	62,739	58,841
Other income	210,448	129,900
Total Revenue and Support	22,640,029	18,883,029
 EXPENSES		
Program Services		
Regular education	14,515,161	11,497,026
Special education	3,700,783	2,911,300
Total Program Services	18,215,944	14,408,326
Supporting Services		
Management and general	3,553,947	2,794,385
Fundraising	436,805	328,470
Total Expenses	22,206,696	17,531,181
 Change in Net Assets	 433,333	 1,351,848
 NET ASSETS, UNRESTRICTED		
Beginning of year	4,191,079	2,839,231
End of year	\$ 4,624,412	\$ 4,191,079

Brooklyn Prospect Charter School

Statement of Functional Expenses
Year Ended June 30, 2017

(with summarized totals for the year ended June 30, 2016)

	2017						2016
	Program Services			Supporting Services			Total
	Regular Education	Special Education	Total	Management and General	Fundraising	Total	
Salaries	\$ 9,184,440	\$ 2,296,110	\$ 11,480,550	\$ 1,684,032	\$ 276,716	\$ 13,441,298	\$ 10,443,550
Employee benefits and payroll taxes	1,875,016	468,754	2,343,770	358,457	55,148	2,757,375	2,176,657
Office expenses	241,655	60,894	302,549	90,040	7,084	399,673	274,423
Accounting and auditing	-	-	-	32,750	-	32,750	30,250
Legal fees	-	-	-	1,010	-	1,010	5,345
Donated legal services	-	-	-	173,580	-	173,580	115,882
Payroll service	-	-	-	72,161	-	72,161	61,646
Accountability consultant	-	-	-	-	-	-	24,000
General and administrative consultant	70,894	17,724	88,618	95,368	-	183,986	118,853
Other professional fees	80,348	91,598	171,946	9,126	182	181,254	153,134
Professional development	103,768	25,942	129,710	19,839	3,052	152,601	60,051
Student and staff meals	174,843	43,711	218,554	-	-	218,554	216,728
Student and staff special events	102,655	25,664	128,319	9,785	1,505	139,609	92,243
Marketing and recruiting	-	-	-	49,380	-	49,380	45,210
Parent teacher organization	-	-	-	-	32,694	32,694	12,102
Curriculum and classroom	581,037	145,259	726,296	-	-	726,296	588,637
Current Liabilities	-	-	-	109,261	-	109,261	92,275
Facility expense	1,522,556	380,639	1,903,195	657,774	43,426	2,604,395	2,333,975
Technology	94,039	23,510	117,549	66,829	2,766	187,144	96,261
Depreciation and amortization	467,166	116,792	583,958	89,311	13,740	687,009	543,439
Miscellaneous	16,744	4,186	20,930	35,244	492	56,666	46,520
Total Expenses	\$ 14,515,161	\$ 3,700,783	\$ 18,215,944	\$ 3,553,947	\$ 436,805	\$ 22,206,696	\$ 17,531,181

Brooklyn Prospect Charter School

Statement of Cash Flows
Year Ended June 30, 2017
(with summarized amounts for the year ended June 30, 2016)

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 433,333	\$ 1,351,848
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation and amortization	687,009	543,439
Gain on disposal of property and equipment	(45)	(115)
Changes in operating assets and liabilities		
Grants and contract receivables	(874,012)	333,514
Prepaid expenses and other current assets	(157,617)	102,999
Security deposit	(700,000)	-
Due from related party	(133,795)	-
Accounts payable and accrued expenses	73,921	80,347
Refundable advance	109,450	(2,937)
Due to related party	-	(200,000)
Deferred rent	318,301	336,982
Net Cash from Operating Activities	(243,455)	2,546,077
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(1,301,391)	(984,172)
Restricted Cash	(25,665)	(294)
Net Cash from Investing Activities	(1,327,056)	(984,466)
Net Change in Cash and Cash Equivalents	(1,570,511)	1,561,611
CASH AND CASH EQUIVALENTS		
Beginning of year	1,692,833	131,222
End of year	\$ 122,322	\$ 1,692,833

Brooklyn Prospect Charter School

Notes to Financial Statements
June 30, 2017 and 2016

1. Organization and Tax Status

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. On June 4, 2014, the Board of Regents granted the School a second provisional charter valid for a term of five years and renewable upon expiration. Classes commenced for the second charter in August 2016. The School's mission is to be a K-12 college preparatory community where excellent teachers prepare a diverse student body to have a positive impact on society and a lifelong passion for learning. In the 2016-2017 academic year, the School operated classes for approximately 1,069 students in grades kindergarten through third and sixth through twelfth.

Except for taxes that may be due for unrelated business income, the School is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and from state and local income taxes under comparable laws.

2. Summary of Significant Accounting Policies

Basis of Presentation and Use of Estimates

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"), which 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 revenues and expenses during the reporting period. Accordingly actual results could differ from those estimates.

Net Assets Presentation

Resources for various purposes are classified for accounting and reporting purposes into net asset categories established according to nature and purpose as follows:

Unrestricted - consist of resources available for the general support of the School's operations. Unrestricted net assets may be used at the discretion of the School's management and Board of Trustees.

Temporarily Restricted - represent amounts restricted by donors for specific activities of the School or to be used at some future date. The School records contributions as temporarily restricted if they are received with donor stipulations that limit their use either through purpose or time restrictions. When a donor restriction expires, that is, when a time restriction ends or a purpose restriction is fulfilled, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions. However, when restrictions on donor-restricted contributions are met in the same accounting period in which they are received, such amounts are reported as unrestricted net assets.

Brooklyn Prospect Charter School

Notes to Financial Statements
June 30, 2017 and 2016

2. Summary of Significant Accounting Policies *(continued)*

Net Assets Presentation (continued)

Permanently Restricted - consist of net assets that are subject to donor imposed restrictions that require the School to maintain them permanently, including funds that are subject to restrictions of gift instruments requiring that the principal be invested in perpetuity and the income be used for specific or general purposes. Income and gains earned on endowment fund investments are available to be used in the unrestricted or temporarily restricted net asset classes based upon stipulations by the donors.

The School had no temporarily or permanently restricted net assets at June 30, 2017 and 2016.

Cash and Cash Equivalents

Cash and cash equivalents include cash balances held in bank accounts and highly liquid debt instruments with maturities of three months or less at the time of purchase.

Restricted Cash

Under the provisions of its charter, the School established an escrow account to pay for legal and audit expenses that would be associated with a dissolution should it occur.

Property and Equipment

The School follows the practice of capitalizing all expenditures for property and equipment with costs in excess of \$3,000 and a useful life in excess of one year. Leasehold improvements are amortized over the shorter of the term of the lease, inclusive of all renewal periods, which are reasonably assured, or the estimated useful life of the asset. Purchased property and equipment are recorded at cost at the date of acquisition. Minor costs of maintenance and repairs are expensed as incurred. All property and equipment purchased with government funding is capitalized, unless the government agency retains legal title to such assets, whereby such assets are expensed as incurred.

Depreciation and amortization is recognized on the straight-line method over the estimated useful lives of such assets as follows:

Computers and equipment	5 years
Furniture and fixtures	7 years
Software	3 years

Property and equipment are reviewed for impairment if the use of the asset significantly changes or another indicator of possible impairment is identified. If the carrying amount for the asset is not recoverable, the asset is written down to the fair value. There were no asset impairments for the years ended June 30, 2017 and 2016.

Brooklyn Prospect Charter School

Notes to Financial Statements
June 30, 2017 and 2016

2. Summary of Significant Accounting Policies (*continued*)

Refundable Advances

The School records certain government operating revenue as refundable advances until related services are performed, at which time they are recognized as revenue.

Revenue and Support

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.

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 at the date of donation.

Functional Expense Allocation

The majority of expenses can generally be directly identified with the program or supporting service to which they relate and are charged accordingly. Other expenses by function have been allocated among program and supporting services classifications on the basis of periodic time and expense studies and other basis as determined by management of the School to be appropriate.

Accounting for Uncertainty in Income Taxes

The School recognizes the effect of income tax positions only if those positions are more likely than not to be sustained. Management has determined that the School had no uncertain tax positions that would require financial statement recognition or disclosure. The School is no longer subject to examinations by the applicable taxing jurisdictions for years prior to June 30, 2014.

Brooklyn Prospect Charter School

Notes to Financial Statements
June 30, 2017 and 2016

2. Summary of Significant Accounting Policies *(continued)*

Prior Year Summarized Comparative Financial Information

The financial statements include prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. GAAP. Accordingly, such information should be read in conjunction with the School's financial statements for the year ended June 30, 2016, from which the summarized information was derived.

Subsequent Events Evaluation by Management

Management has evaluated subsequent events for disclosure and/or recognition in the financial statements through the date that the financial statements were available to be issued, which date is October 27, 2017.

3. 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.

4. Property and Equipment

Property and equipment consists of the following as of June 30:

	<u>2017</u>	<u>2016</u>
Computers and equipment	\$ 1,611,098	\$ 1,291,405
Furniture and fixtures	1,355,264	1,119,586
Software	33,744	33,744
Leasehold improvements	4,089,864	3,352,992
Construction-in-progress	<u>329,279</u>	<u>320,086</u>
	7,419,249	6,117,813
Accumulated depreciation and amortization	<u>(2,614,803)</u>	<u>(1,927,794)</u>
	<u>\$ 4,804,446</u>	<u>\$ 4,190,019</u>

Construction-in-progress at June 30, 2017 and 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.

5. Contingency

Certain grants and contracts may be subject to audit by the funding sources. Such audits might result in disallowances of costs submitted for reimbursements. Management is of the opinion that such cost disallowances, if any, will not have a material effect on the accompanying financial statements. Accordingly, no amounts have been provided in the accompanying financial statements for such potential claims.

Brooklyn Prospect Charter School

Notes to Financial Statements
June 30, 2017 and 2016

6. Concentration of Credit Risk

Financial instruments that potentially subject the School to concentrations of credit and market risk consist principally of cash and cash equivalents on deposit with financial institutions, which from time to time may exceed the Federal Deposit Insurance Corporation ("FDIC") limit. The School does not believe that a significant risk of loss due to the failure of a financial institution presently exists. As of June 30, 2017, cash did not exceed FDIC limits.

7. Concentration of Revenue and Support

The School receives a substantial portion of its revenue and support from the New York City Department of Education. For the years ended June 30, 2017 and 2016, the School received approximately 84% and 85% of total revenue and support 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.

8. Employee Benefit Plan

The School maintains a pension plan qualified under Internal Revenue Code 401(k) for the benefit of its eligible employees. Under the plan, the School matched employee contributions up to 4% of the annual compensation covered under the employment arrangement with ADP Retirement Services. Total employee match for the years ended June 30, 2017 and 2016 amounted to \$385,320 and \$210,081.

9. Donated Services

Donated services are recognized as contributions in accordance with U.S. GAAP 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 provided legal services to the School at no charge. The value of these services meets the criteria for recognition in the financial statements and was recorded at a fair value of \$173,580 and \$115,882 for the years ended June 30, 2017 and 2016.

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 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.

Brooklyn Prospect Charter School

Notes to Financial Statements
June 30, 2017 and 2016

10. Commitments (*continued*)

Facilities (continued)

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.

In August 2016, the School signed a lease with Metrotech, LLC 13 for its main office and after school activity center for its elementary students under a non-cancelable lease expiring June 30, 2034. Under this lease, the School has an option of extending the lease an additional 5 years. Under the terms of the lease, the School paid a security deposit in the amount of \$300,000. The School moved into this new facility on April 1, 2017 and commenced paying rent.

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 fall 2018.

In January 2017, the School signed a lease with 160 17th Street LLC for its classrooms, office space, and outdoor play area under a non-cancelable lease for the first middle school expiring June 30, 2038. Under this lease, the School has an option of extending the lease an additional 20 years. Under the terms of the lease, the School is liable to pay a security deposit totaling \$600,000. During fiscal year 2017, the school paid \$400,000 with the remaining balance to be paid upon the issuance of the temporary certificate of occupancy in fiscal year 2018. The School had yet to move into the facility at June 30, 2017 and expects to move in and commence rent payments in fall 2019.

Future minimum lease payments under the above leases are as follows for the years ending June 30:

2018	\$ 3,214,324
2019	4,570,590
2020	4,621,338
2021	4,694,148
2022	4,701,196
Thereafter	<u>64,119,434</u>
	<u>\$ 85,921,030</u>

Brooklyn Prospect Charter School

Notes to Financial Statements
June 30, 2017 and 2016

10. Commitments (continued)

Facilities (continued)

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 three leases for years ended June 30, 2017 and 2016 amounted to \$2,080,343 and \$2,001,803.

Leased Equipment

The School leases various copy machines under non-cancelable operating leases expiring in various years through 2021. Minimum future rental payments under non-cancelable operating leases are as follows for the years ending June 30:

2018	\$	117,103
2019		117,103
2020		97,683
2021		<u>97,683</u>
	\$	<u>429,572</u>

11. Related Party Transaction (not disclosed elsewhere)

The School is an affiliate of Prospect Schools, Inc. ("Prospect"), a New York State not-for-profit corporation, through common management. Prospect provides financial support and other services to the School. For the years ended June 30, 2017 and 2016, the School received contributions of \$1,073,219 and \$1,041,069, from Prospect to cover specific program expenses. At June 30, 2017 and 2016, the outstanding balance due from Prospect amounted to \$146,765 and \$0.

Brooklyn Prospect Charter School

Supplementary Information

June 30, 2017

Brooklyn Prospect Charter School

Schedule of Activities by Charter
Year Ended June 30, 2017

	<u>Charter 1</u>	<u>Charter 2</u>	<u>Total</u>
REVENUE AND SUPPORT			
State and local per pupil operating revenue			
General and special education	\$ 12,425,630	\$ 5,434,678	\$ 17,860,308
Facilities	565,890	539,943	1,105,833
Federal grants	341,128	470,272	811,400
E-Rate and IDEA	115,903	58,752	174,655
State and city grants	613,192	207,518	820,710
Contributions from related party	706,273	367,126	1,073,399
Donated services	118,035	55,545	173,580
After school program	1,571	345,386	346,957
Field trips and events	48,315	14,424	62,739
Other income	<u>151,028</u>	<u>59,420</u>	<u>210,448</u>
Total Revenue and Support	<u>15,086,965</u>	<u>7,553,064</u>	<u>22,640,029</u>
EXPENSES			
Program Services			
Regular education	9,843,793	4,671,368	14,515,161
Special education	<u>2,497,511</u>	<u>1,203,272</u>	<u>3,700,783</u>
Total Program Services	12,341,304	5,874,640	18,215,944
Supporting Services			
Management and general	2,386,788	1,167,159	3,553,947
Fundraising	<u>287,368</u>	<u>149,437</u>	<u>436,805</u>
Total Expenses	<u>15,015,460</u>	<u>7,191,236</u>	<u>22,206,696</u>
Change in Net Assets	71,505	361,828	433,333
NET ASSETS, UNRESTRICTED			
Beginning of year	<u>4,191,079</u>	<u>-</u>	<u>4,191,079</u>
End of year	<u>\$ 4,262,584</u>	<u>\$ 361,828</u>	<u>\$ 4,624,412</u>

Brooklyn Prospect Charter School

Uniform Guidance
Reports and Schedules

June 30, 2017

Brooklyn Prospect Charter School

Schedule of Expenditures of Federal Awards
Year Ended June 30, 2017

Federal Grantor/Pass-through Grantor Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Passed through to Subrecipients	Total Federal Expenditures
U.S. Department of Education				
Passed Through the New York State Education Department:				
Title I Grants to Local Educational Agencies	84.010	0021-17-5260	\$ -	\$ 25,152
Title I Grants to Local Educational Agencies	84.010	0021-17-4545	-	<u>277,722</u>
			-	<u>302,874</u>
Improving Teacher Quality State Grants	84.367	0147-17-5260	-	3,168
Improving Teacher Quality State Grants	84.367	0147-17-4545	-	<u>5,742</u>
			-	<u>8,910</u>
Charter Schools Program	84.282A	0089-17-0009	-	<u>418,117</u>
Total U.S. Department of Education			-	<u>729,901</u>
U.S. Department of Agriculture				
Passed Through the New York State Education Department:				
Child Nutrition Cluster				
School Breakfast Program	10.553		-	13,048
National School Lunch	10.555		-	67,406
National School Lunch	10.555		-	<u>1,045</u>
Total U.S. Department of Agriculture			-	<u>81,499</u>
Total Expenditures of Federal Awards			<u>\$ -</u>	<u>\$ 811,400</u>

Brooklyn Prospect Charter School

Notes to Schedule of Expenditures of Federal Awards
Year ended June 30, 2017

1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of the School under programs of the federal government for the year ended June 30, 2017. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Because the Schedule presents only a selected portion of the operations of the School, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the School.

2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

3. Non-Monetary Assistance

Non-monetary assistance is reported in the Schedule based on the amount disbursed or received. The Organization received no non-monetary assistance for the year ended June 30, 2017.

4. Indirect Cost Rate

The School has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

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*

Independent Auditors' Report

**Board of Trustees
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"), which comprise the statement of financial position as of June 30, 2017, 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 27, 2017.

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.

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 27, 2017.

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.

PKF O'Connor Davies, LLP
Harrison, New York
October 27, 2017

**Report on Compliance for Each Major Federal Program and Report on Internal Control
Over Compliance Required by the Uniform Guidance**

Independent Auditors' Report

**Board of Trustees
Brooklyn Prospect Charter School**

Report on Compliance for Each Major Federal Program

We have audited Brooklyn Prospect Charter School's (the "School") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the School's major federal programs for the year ended June 30, 2017. The School's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the School's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the School's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the School's compliance.

Opinion on Each Major Federal Program

In our opinion, the School complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

Report on Internal Control over Compliance

Management of the School is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the School's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the School's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

PKF O'Connor Davies, LLP

Harrison, New York
October 27, 2017

Brooklyn Prospect Charter School

Schedule of Findings and Questioned Costs
Year Ended June 30, 2017

Section I - Summary of Auditors' Results

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP:

Unmodified

Internal control over financial reporting:

Material weakness(es) identified?

_____ yes X no

Significant deficiency(ies) identified?

_____ yes X none reported

Noncompliance material to the financial statements noted?

_____ yes X no

Federal Awards

Internal control over major federal programs:

Material weakness(es) identified?

_____ yes X no

Significant deficiency(ies) identified?

_____ yes X none reported

Type of auditors' report issued on compliance for major federal programs:

Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?

_____ yes X no

Identification of major federal programs:

CFDA Number

84.282A

Name of Federal Program or Cluster

Charter Schools Program

Dollar threshold used to distinguish between type A and type B programs:

\$750,000

Auditee qualified as low-risk auditee?

_____ yes X no

Section II – Financial Statement Findings

During our audit, we noted no material findings for the year ended June 30, 2017.

Section III – Federal Award Findings and Questioned Costs

During our audit, we noted no material instances of noncompliance and none of the costs reported in the federal financially assisted programs are questioned or recommended to be disallowed.

Section IV – Prior Year Findings

There were no prior year audit findings.