

Brooklyn Prospect Charter School

Financial Statements

June 30, 2019 and 2018

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 statements of financial position as of June 30, 2019 and 2018, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the School as of June 30, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note 2 to the financial statements, during the year ended June 30, 2019, Brooklyn Prospect Charter Schools adopted new accounting guidance resulting in a change in the manner in which it presents net assets and reports certain aspects of its financial statements. Our opinion is not modified with respect to this matter.

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The schedules of activities and functional expenses by charter for the year ended June 30, 2019 on pages 16 through 18 are presented for purposes of additional analysis and are 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 31, 2019, 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

Brooklyn Prospect Charter School

Statements of Financial Position

	June 30,	
	2019	2018
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 1,038,270	\$ 341,028
Grants and contract receivables	513,481	1,076,761
Due from related parties	308,377	-
Prepaid expenses and other current assets	140,954	140,407
Total Current Assets	2,001,082	1,558,196
Property and equipment, net	4,887,391	4,697,165
Restricted cash	151,275	126,194
Security deposits	1,517,000	1,117,000
	\$ 8,556,748	\$ 7,498,555
 LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable and accrued expenses	\$ 664,830	\$ 234,315
Due to related party	-	2,986
Deferred rent	396,409	376,483
Refundable advances	24,603	24,373
Total Current Liabilities	1,085,842	638,157
Deferred rent, net of current portion	2,295,600	2,457,104
Total Liabilities	3,381,442	3,095,261
Net assets, without donor restrictions	5,175,306	4,403,294
	\$ 8,556,748	\$ 7,498,555

See notes to financial statements

Brooklyn Prospect Charter School

Statements of Activities

	Year Ended June 30,	
	2019	2018
OPERATING REVENUE		
State and local per pupil operating revenue		
General education	\$ 22,737,775	\$ 18,532,586
Special education	3,207,236	2,545,338
Facilities	3,079,826	1,437,900
Federal grants	300,059	525,559
Federal E-Rate and IDEA	151,986	174,473
State and city grants	1,011,441	772,940
Total Operating Revenue	30,488,323	23,988,796
EXPENSES		
Program Services		
Regular education	20,126,401	16,587,660
Special education	5,030,718	4,192,521
Total Program Services	25,157,119	20,780,181
Supporting Services		
Management and general	5,776,464	4,758,961
Fundraising	356,028	517,326
Total Expenses	31,289,611	26,056,468
 (Deficit) from Operations	 (801,288)	 (2,067,672)
SUPPORT AND OTHER REVENUE		
Contributions from related party	296,344	1,003,803
Donated services	62,062	94,420
After school program	376,166	363,777
Field trips and events	142,991	168,182
Gain on transfer of leases to related party	483,431	-
Other income	212,306	216,372
Total Support and Other Revenue	1,573,300	1,846,554
 Change in Net Assets	 772,012	 (221,118)
NET ASSETS		
Beginning of year	4,403,294	4,624,412
 End of year	 \$ 5,175,306	 \$ 4,403,294

See notes to financial statements

Brooklyn Prospect Charter School

Statement of Functional Expenses
Year Ended June 30, 2019

	No. of Positions	Program Services			Supporting Services		Total
		Regular Education	Special Education	Total	Management and General	Fundraising	
Personnel Services Costs							
Administrative staff personnel	28	\$ 1,059,478	\$ 264,870	\$ 1,324,348	\$ 728,966	\$ 133,496	\$ 2,186,810
Instructional personnel	177	9,624,428	2,406,107	12,030,535	-	-	12,030,535
Non-instructional personnel	40	<u>1,217,069</u>	<u>304,267</u>	<u>1,521,336</u>	<u>457,107</u>	<u>-</u>	<u>1,978,443</u>
Total Salaries and Staff	<u>245</u>	11,900,975	2,975,244	14,876,219	1,186,073	133,496	16,195,788
Employee benefits and payroll taxes		2,671,545	649,835	3,321,380	288,818	-	3,610,198
Office expenses		282,439	69,242	351,681	61,438	3,981	417,100
Accounting and auditing		-	-	-	18,274	-	18,274
Legal fees		-	-	-	12,609	-	12,609
Donated legal services		-	-	-	62,062	-	62,062
Payroll service		-	-	-	91,215	-	91,215
General and administrative consultants		42,698	10,675	53,373	71,333	-	124,706
Management fee		820,415	205,104	1,025,519	2,221,958	170,920	3,418,397
Other professional fees		185,128	87,304	272,432	8,046	-	280,478
Professional development		128,832	31,337	160,169	13,929	-	174,098
Student and staff meals		11,018	2,755	13,773	-	-	13,773
Student and staff special events		191,044	47,226	238,270	8,562	-	246,832
Marketing and recruiting		-	-	-	717	-	717
Parent teacher organization		-	-	-	-	47,631	47,631
Curriculum and classroom		736,766	184,192	920,958	-	-	920,958
Insurance		-	-	-	111,909	-	111,909
Facilities expense		3,069,585	746,897	3,816,482	704,381	-	4,520,863
Technology		69,552	16,917	86,469	18,448	-	104,917
Depreciation and amortization		-	-	-	759,959	-	759,959
Bad debt		-	-	-	120,461	-	120,461
Miscellaneous		<u>16,404</u>	<u>3,990</u>	<u>20,394</u>	<u>16,272</u>	<u>-</u>	<u>36,666</u>
Total Expenses		<u>\$ 20,126,401</u>	<u>\$ 5,030,718</u>	<u>\$ 25,157,119</u>	<u>\$ 5,776,464</u>	<u>\$ 356,028</u>	<u>\$ 31,289,611</u>

Brooklyn Prospect Charter School

Statement of Functional Expenses
Year Ended June 30, 2018

	No. of Positions	Program Services			Supporting Services		Total
		Regular Education	Special Education	Total	Management and General	Fundraising	
Personnel Services Costs							
Administrative staff personnel	7	\$ 1,720,274	\$ 430,069	\$ 2,150,343	\$ 1,545,631	\$ 323,426	\$ 4,019,400
Instructional personnel	152	7,903,198	1,975,800	9,878,998	-	-	9,878,998
Non-instructional personnel	<u>92</u>	<u>1,186,668</u>	<u>296,667</u>	<u>1,483,335</u>	<u>463,836</u>	<u>-</u>	<u>1,947,171</u>
Total Salaries and Staff	<u>251</u>	10,810,140	2,702,536	13,512,676	2,009,467	323,426	15,845,569
Employee benefits and payroll taxes		2,359,756	589,939	2,949,695	451,129	69,404	3,470,228
Office expenses		257,522	65,066	322,588	91,626	6,802	421,016
Accounting and auditing		-	-	-	63,487	-	63,487
Legal fees		-	-	-	47,008	-	47,008
Donated legal services		-	-	-	94,420	-	94,420
Payroll service		-	-	-	67,943	-	67,943
General and administrative consultants		109,411	27,353	136,764	153,356	-	290,120
Other professional fees		162,535	85,551	248,086	12,029	1,083	261,198
Professional development		121,941	30,485	152,426	23,313	3,586	179,325
Student and staff meals		175,355	43,839	219,194	5,267	810	225,271
Student and staff special events		104,374	26,094	130,468	10,820	1,665	142,953
Marketing and recruiting		-	-	-	66,207	-	66,207
Parent teacher organization		-	-	-	-	58,008	58,008
Curriculum and classroom		653,914	163,479	817,393	-	-	817,393
Insurance		-	-	-	124,028	-	124,028
Facilities expense		1,683,401	420,850	2,104,251	705,704	48,151	2,858,106
Technology		110,439	27,610	138,049	68,198	3,248	209,495
Depreciation and amortization		-	-	-	719,917	-	719,917
Miscellaneous		<u>38,872</u>	<u>9,719</u>	<u>48,591</u>	<u>45,042</u>	<u>1,143</u>	<u>94,776</u>
Total Expenses		<u>\$ 16,587,660</u>	<u>\$ 4,192,521</u>	<u>\$ 20,780,181</u>	<u>\$ 4,758,961</u>	<u>\$ 517,326</u>	<u>\$ 26,056,468</u>

Brooklyn Prospect Charter School

Statements of Cash Flows

	Year Ended June 30,	
	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 772,012	\$ (221,118)
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation and amortization	759,959	719,917
Deferred rent	341,853	193,951
Gain on transfer of leases to related party	(483,431)	-
Bad debt	120,461	-
Changes in operating assets and liabilities		
Grants and contract receivables	442,819	150,953
Prepaid expenses and other current assets	(547)	113,119
Security deposits	(400,000)	-
Due from related parties	(308,377)	133,795
Accounts payable and accrued expenses	430,515	(136,502)
Refundable advances	230	(100,689)
Due to related party	(2,986)	2,986
Net Cash from Operating Activities	1,672,508	856,412
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(950,185)	(612,636)
Restricted cash	(25,081)	(25,070)
Net Cash from Investing Activities	(975,266)	(637,706)
 Net Change in Cash and Cash Equivalents	697,242	218,706
CASH AND CASH EQUIVALENTS		
Beginning of year	341,028	122,322
End of year	\$ 1,038,270	\$ 341,028

See notes to financial statements

Brooklyn Prospect Charter School

Notes to Financial Statements
June 30, 2019 and 2018

1. Organization and Tax Status

Brooklyn Prospect Charter School (the "School") is an educational corporation that operates three charter schools 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 (CSD 15) valid for a term of five years and renewable upon expiration. On June 4, 2014, the Board of Regents granted the School a second provisional charter (CSD 13) valid for a term of five years and renewable upon expiration. In July 2019, the Board of Regents granted the School a third provisional charter (CSD 15.2) valid for a term of five years and renewable upon expiration. On August 1, 2019, the Board of Regents granted the School a full-term renewal for CSD 15 and CSD 13 for a period of five years effective until July 31, 2024. The School's mission is to be a K through 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 2018-2019 academic year, the School operated classes for approximately 1,440 students in grades kindergarten through twelfth grade.

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.

Change in Accounting Principle

On July 1, 2018, the School adopted new guidance regarding the Presentation of Financial Statements for Not-for-Profit Entities. This guidance requires the School to collapse the three-category (unrestricted, temporarily restricted, and permanently restricted) classification of net assets into two categories: with donor restrictions and without donor restrictions. In addition, the new guidance requires the School to make certain expanded disclosures relating to the liquidity of financial assets, and expenses by both their natural and functional classification in one location in the financial statements. As a result of implementing this standard, prior year amounts for unrestricted net assets were reclassified as net assets without donor restrictions.

Brooklyn Prospect Charter School

Notes to Financial Statements
June 30, 2019 and 2018

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

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:

Net assets without donor restrictions - consist of resources available for the general support of the School's operations. Net assets without donor restrictions may be used at the discretion of the School's management and/or the Board of Trustees.

Net assets with donor restrictions – represents amounts restricted by donors for specific activities of the School or to be used at a future date. The School records contributions as net assets with donor restrictions 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, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions. The School had no net assets with donor restrictions as of June 30, 2019 and 2018.

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, in which case 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

Brooklyn Prospect Charter School

Notes to Financial Statements
June 30, 2019 and 2018

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

Property and Equipment (continued)

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 its fair value. There were no asset impairments for the years ended June 30, 2019 and 2018.

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 net assets with donor restrictions 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 net assets without donor restrictions. Contributions of assets other than cash are recorded at their estimated fair value at the date of donation.

Donated Services

Donated services are recognized as contributions in accordance with U.S. GAAP if the services create or enhance non-financial assets, require specialized skills, are performed by people with those skills, and would otherwise be purchased by the School, and are measureable.

Marketing and Recruiting

Marketing and recruiting costs are expensed as incurred. Marketing and recruiting costs for the years ended June 30, 2019 and 2018 amounted to \$717 and \$66,207.

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.

Brooklyn Prospect Charter School

Notes to Financial Statements
June 30, 2019 and 2018

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

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, 2016.

Reclassifications

Certain amounts in the 2018 financial statements have been reclassified to conform to the 2019 presentation.

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 31, 2019.

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, and has not provided an allowance for doubtful accounts.

4. Property and Equipment

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

	<u>2019</u>	<u>2018</u>
Computers and equipment	\$ 2,100,404	\$ 1,787,761
Furniture and fixtures	1,694,496	1,449,862
Software	33,744	33,744
Leasehold improvements	5,153,426	4,433,520
Construction-in-progress	<u>-</u>	<u>326,998</u>
	8,982,070	8,031,885
Accumulated depreciation and amortization	<u>(4,094,679)</u>	<u>(3,334,720)</u>
	<u>\$ 4,887,391</u>	<u>\$ 4,697,165</u>

Construction-in-progress at June 30, 2018 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. Work was completed during fiscal year 2019 and amounts were transferred to leasehold improvements.

Brooklyn Prospect Charter School

Notes to Financial Statements
June 30, 2019 and 2018

5. Liquidity and Availability of Financial Assets

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use within one year of the statement of financial position date, are comprised of the following at June 30, 2019:

Cash and cash equivalents	\$ 1,038,270
Grants and contracts receivable	513,481
Due from related parties	<u>308,377</u>
	<u>\$ 1,860,128</u>

As part of the School's liquidity management plan, the status of grants and contracts receivable is monitored on a regularly any excess cash is held in savings accounts and other liquid instruments until it is required for operational use.

6. 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 was originally organized to provide financial support and other services to the School. Effective July 1, 2018, Prospect amended its legal purpose to act as a charter management organization and provide support as outline in the agreement. The School entered into an agreement with Prospect effective July 1, 2018 which calls for Prospect to oversee the School in their development and implementation of the educational and instruction programs; support and assist the business administration of the School; assist in the recruitment of personnel and provide human resources services; and oversee the financial services and reports for the School. For the year end June 30, 2019, the School paid Prospect an annual fee of 12% of the School's per pupil operating revenue, per pupil facilities revenue, federal Individuals with Disabilities Education Act revenue, and federal Titles revenue. The management fee for the year ended June 30, 2019 amounted to \$3,418,397.

For the years ended June 30, 2019 and 2018, the School received contributions of \$296,344 and \$1,003,803 from Prospect to cover specific program expenses.

The School is an affiliate of Friends of Prospect Schools, Inc. ("FOPS"), a New York State not-for-profit corporation, through common management. FOPS's purpose is to support the operation of the School by managing the School's real estate and facilities-related needs, and by raising funds and resources that will enable FOPS to provide support to the School and to enhance the experience of the School's students.

During fiscal year 2019, the lease agreements of three facilities used by the School were transferred to FOPS (see Note 12) and new sublease agreements were entered into between FOPS (sublandlord) and the School (subtenant). As a result of these transfers, unamortized deferred rent liability was written off resulting in a non-operating gain of \$483,431 which is reported as gain on transfer of leases to related party in the statements of activities.

At June 30, 2019, the outstanding balance due from Prospect and FOPS was \$274,908 and \$33,469, while the outstanding balance due to Prospect amounted to \$2,986 at June 30, 2018.

Brooklyn Prospect Charter School

Notes to Financial Statements
June 30, 2019 and 2018

7. Contingency

Certain grants and contracts may be subject to audit by the funding sources. Such audits might result in disallowances of costs submitted for reimbursement. 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.

8. 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, 2019 and 2018, approximately \$938,000 and \$216,000 of cash was maintained with an institution in excess of FDIC limits.

9. 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, 2019 and 2018, the School received approximately 90% and 87% of its 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.

10. 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 employer match for the years ended June 30, 2019 and 2018 amounted to \$489,599 and \$458,574.

11. Donated Services

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 \$62,062 and \$94,420 for the years ended June 30, 2019 and 2018. The value of these services is allocated to management and general services in the accompanying statements of activities and functional expenses.

Brooklyn Prospect Charter School

Notes to Financial Statements
June 30, 2019 and 2018

12. 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 10 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 June 2019, the lease agreement was transferred to FOPS (see Note 6) and a new sublease agreement between FOPS (sublandlord) and the School (subtenant) was executed effective July 1, 2019 for a period of 23 years ending on June 30, 2042.

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 October 2018, the lease agreement was transferred to FOPS (see Note 6) and a new sublease agreement between FOPS (sublandlord) and the School (subtenant) was executed for a period of 15 years ending on June 30, 2033.

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 five 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 \$600,000. 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 moved into the permanent facility in the fall of 2018. In October 2018, the lease agreement was transferred to FOPS (see Note 6) and a new sublease agreement between FOPS (sublandlord) and the School (subtenant) was executed for a period of 30 years ending on June 30, 2048.

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. The school paid \$400,000 with the remaining balance to be paid upon the issuance of the temporary certificate of occupancy in fiscal year 2020. The School had yet to move into the facility at June 30, 2019 and expects to move in and commence rent payments in the fall of 2020.

Brooklyn Prospect Charter School

Notes to Financial Statements
June 30, 2019 and 2018

12. Commitments (*continued*)

Facilities (continued)

In July 2019, the School signed a lease with Caton Avenue Realty, LLC, for additional gym and dance space of the entire first floor under a non-cancelable lease for the Windsor Terrace middle and high schools expiring June 2020. Under this lease, the School has an option of extending the lease for an additional year. The School moved into its facility during fiscal year 2020 and commenced paying rent.

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

2020	\$ 5,167,032
2021	6,446,688
2022	7,273,528
2023	7,617,276
2024	7,713,007
Thereafter	<u>90,613,771</u>
	<u>\$ 124,831,302</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. Facilities expense for the years ended June 30, 2019 and 2018 amounted to \$4,520,863 and \$2,858,106.

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:

2020	\$ 97,683
2021	<u>97,683</u>
	<u>\$ 195,366</u>

* * * * *

Brooklyn Prospect Charter School

Supplementary Information

June 30, 2019

Brooklyn Prospect Charter School

Schedule of Activities by Charter Year Ended June 30, 2019

	CSD 15	CSD 13	Total
OPERATING REVENUE			
State and local per pupil operating revenue			
General education	\$ 11,933,299	\$ 10,804,476	\$ 22,737,775
Special education	2,033,220	1,174,016	3,207,236
Facilities	895,355	2,184,471	3,079,826
Federal grants	206,491	93,568	300,059
Federal E-Rate and IDEA	106,868	45,118	151,986
State and city grants	648,563	362,878	1,011,441
Total Operating Revenue	15,823,796	14,664,527	30,488,323
EXPENSES			
Program Services			
Regular education	10,597,024	9,529,377	20,126,401
Special education	2,655,704	2,375,014	5,030,718
Total Program Services	13,252,728	11,904,391	25,157,119
Supporting Services			
Management and general	3,067,142	2,709,322	5,776,464
Fundraising	184,906	171,122	356,028
Total Expenses	16,504,776	14,784,835	31,289,611
 (Deficit) from Operations	 (680,980)	 (120,308)	 (801,288)
Contributions from related party	160,663	135,681	296,344
Donated services	34,755	27,307	62,062
After school program	178	375,988	376,166
Field trips and events	59,187	83,804	142,991
Gain on transfer of leases to related party	-	483,431	483,431
Other income	155,581	56,725	212,306
Total Support and Other Revenue	410,364	1,162,936	1,573,300
 Change in Net Assets	 (270,616)	 1,042,628	 772,012
NET ASSETS			
Beginning of year	3,694,847	708,447	4,403,294
End of year	\$ 3,424,231	\$ 1,751,075	\$ 5,175,306

See independent auditors' report

Brooklyn Prospect Charter School

Schedule of Functional Expenses
CSD15
Year Ended June 30, 2019

	No. of Positions	Program Services			Supporting Services		Total
		Regular Education	Special Education	Total	Management and General	Fundraising	
Personnel Services Costs							
Administrative staff personnel	15	\$ 504,976	\$ 126,244	\$ 631,220	\$ 368,080	\$ 69,621	\$ 1,068,921
Instructional personnel	91	5,367,900	1,341,976	6,709,876	-	-	6,709,876
Non-instructional personnel	20	664,811	166,203	831,014	317,052	-	1,148,066
Total Salaries and Staff	126	6,537,687	1,634,423	8,172,110	685,132	69,621	8,926,863
Employee benefits and payroll taxes		1,445,051	351,499	1,796,550	156,222	-	1,952,772
Office expenses		147,117	36,094	183,211	36,927	2,150	222,288
Accounting and auditing		-	-	-	9,841	-	9,841
Legal fees		-	-	-	7,144	-	7,144
Donated legal services		-	-	-	34,754	-	34,754
Payroll service		-	-	-	49,256	-	49,256
General and administrative consultants		21,129	5,282	26,411	27,985	-	54,396
Management fee		406,542	101,636	508,178	1,101,052	84,696	1,693,926
Other professional fees		105,099	53,359	158,458	4,850	-	163,308
Professional development		94,082	22,885	116,967	10,171	-	127,138
Student and staff meals		1,997	499	2,496	-	-	2,496
Student and staff special events		85,187	21,097	106,284	3,198	-	109,482
Marketing and recruiting		-	-	-	331	-	331
Parent teacher organization		-	-	-	-	28,439	28,439
Curriculum and classroom		355,610	88,903	444,513	-	-	444,513
Insurance		-	-	-	58,506	-	58,506
Facility expense		1,356,117	329,955	1,686,072	346,594	-	2,032,666
Technology		32,419	7,886	40,305	6,671	-	46,976
Depreciation and amortization		-	-	-	425,577	-	425,577
Bad debt		-	-	-	96,059	-	96,059
Miscellaneous		8,987	2,186	11,173	6,872	-	18,045
Total Expenses		\$ 10,597,024	\$ 2,655,704	\$ 13,252,728	\$ 3,067,142	\$ 184,906	\$ 16,504,776

See independent auditors' report

Brooklyn Prospect Charter School

Schedule of Functional Expenses

CSD 13

Year Ended June 30, 2019

	No. of Positions	Program Services			Supporting Services		Total
		Regular Education	Special Education	Total	Management and General	Fundraising	
Personnel Services Costs							
Administrative staff personnel	13	\$ 554,502	\$ 138,625	\$ 693,127	\$ 360,887	\$ 63,875	\$ 1,117,889
Instructional personnel	86	4,256,527	1,064,132	5,320,659	-	-	5,320,659
Non-instructional personnel	<u>20</u>	<u>552,258</u>	<u>138,064</u>	<u>690,322</u>	<u>140,055</u>	<u>-</u>	<u>830,377</u>
Total Salaries and Staff	<u>119</u>	5,363,287	1,340,821	6,704,108	500,942	63,875	7,268,925
Employee benefits and payroll taxes		1,226,495	298,337	1,524,832	132,594	-	1,657,426
Office expenses		135,322	33,147	168,469	24,512	1,831	194,812
Accounting and auditing		-	-	-	8,433	-	8,433
Legal fees		-	-	-	5,465	-	5,465
Donated legal services		-	-	-	27,308	-	27,308
Payroll service		-	-	-	41,959	-	41,959
General and administrative consultants		21,569	5,392	26,961	43,349	-	70,310
Management fee		413,873	103,468	517,341	1,120,906	86,224	1,724,471
Other professional fees		80,029	33,945	113,974	3,196	-	117,170
Professional development		34,750	8,453	43,203	3,757	-	46,960
Student and staff meals		9,022	2,255	11,277	-	-	11,277
Student and staff special events		105,857	26,129	131,986	5,364	-	137,350
Marketing and recruiting		-	-	-	386	-	386
Parent teacher organization		-	-	-	-	19,192	19,192
Curriculum and classroom		381,156	95,289	476,445	-	-	476,445
Insurance		-	-	-	53,403	-	53,403
Facility expense		1,713,469	416,942	2,130,411	357,786	-	2,488,197
Technology		37,131	9,032	46,163	11,778	-	57,941
Depreciation and amortization		-	-	-	334,382	-	334,382
Bad debt		-	-	-	24,402	-	24,402
Miscellaneous		<u>7,417</u>	<u>1,804</u>	<u>9,221</u>	<u>9,400</u>	<u>-</u>	<u>18,621</u>
Total Expenses		<u>\$ 9,529,377</u>	<u>\$ 2,375,014</u>	<u>\$ 11,904,391</u>	<u>\$ 2,709,322</u>	<u>\$ 171,122</u>	<u>\$ 14,784,835</u>

See independent auditors' report

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, 2019, 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 31, 2019.

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*.

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 31, 2019

Board of Trustees
Brooklyn Prospect Charter School

Auditors' Communication on Internal Control

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, 2019, 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 entity'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 deficiencies, significant deficiencies, or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified.

We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

This communication is intended solely for the information and use of management, the audit committee, the Board of Trustees, 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 School, and is not intended to be and should not be used by anyone other than these specified parties.

PKF O'Connor Davies, LLP

Harrison, New York
October 31, 2019