

# **Broome Street Academy Charter High School**

Financial Report  
June 30, 2016

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RSM US LLP

## Independent Auditor's Report

To the Board of Trustees  
Broome Street Academy Charter High School

### Report on the Financial Statements

We have audited the accompanying financial statements of Broome Street Academy Charter High School (BSA), which comprise the statements of financial position as of June 30, 2016 and 2015, 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.

### Auditor's 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 auditor's 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 Broome Street Academy Charter High School as of June 30, 2016 and 2015, 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.

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

In accordance with *Government Auditing Standards*, we have also issued our reports dated October 17, 2016 and October 6, 2015 on our consideration of BSA'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 these reports 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. These reports are an integral part of an audit performed in accordance with *Government Auditing Standards* in considering BSA's internal control over financial reporting and compliance.

*RSM US LLP*

New York, New York  
October 17, 2016

**Broome Street Academy Charter High School**

**Statements of Financial Position  
June 30, 2016 and 2015**

	2016	2015
<b>Assets</b>		
Cash	\$ 1,926,769	\$ 1,654,373
Restricted cash	75,333	75,285
Grants, contracts and other receivables	62,102	35,968
Prepaid expenses and other assets	26,606	75,816
Property and equipment, net	290,606	558,061
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<b>Total assets</b>	<b>\$ 2,381,416</b>	<b>\$ 2,399,503</b>
	<hr/> <hr/>	<hr/> <hr/>
<b>Liabilities and Net Assets</b>		
Liabilities:		
Refundable advances	\$ 1,603	\$ 53,595
Accounts payable and accrued expenses	580,943	514,994
Deferred rent	-	46,883
Other	15,716	11,370
	<hr/>	<hr/>
<b>Total liabilities</b>	<b>598,262</b>	<b>626,842</b>
	<hr/> <hr/>	<hr/> <hr/>
Commitment and contingency		
Net assets:		
Unrestricted:		
Reserve - contingency	75,333	75,285
Undesignated for general use	1,386,215	1,139,315
Net investment in fixed assets	290,606	558,061
	<hr/>	<hr/>
<b>Total unrestricted</b>	<b>1,752,154</b>	<b>1,772,661</b>
	<hr/> <hr/>	<hr/> <hr/>
Temporarily restricted	31,000	-
	<hr/>	<hr/>
<b>Total net assets</b>	<b>1,783,154</b>	<b>1,772,661</b>
	<hr/> <hr/>	<hr/> <hr/>
<b>Total liabilities and net assets</b>	<b>\$ 2,381,416</b>	<b>\$ 2,399,503</b>
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See notes to financial statements.

**Broome Street Academy Charter High School**

**Statements of Activities  
Years Ended June 30, 2016 and 2015**

	2016			2015		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Operating revenue:						
State and local per pupil operating revenue	\$ 5,560,064	\$ -	\$ 5,560,064	\$ 5,550,051	\$ -	\$ 5,550,051
Government grants and contracts	409,886	-	409,886	358,270	-	358,270
<b>Total operating revenue</b>	<b>5,969,950</b>	<b>-</b>	<b>5,969,950</b>	<b>5,908,321</b>	<b>-</b>	<b>5,908,321</b>
Operating expenses:						
Program services:						
Regular education	4,076,902	-	4,076,902	3,732,466	-	3,732,466
Special education	1,461,735	-	1,461,735	1,238,964	-	1,238,964
<b>Total program services</b>	<b>5,538,637</b>	<b>-</b>	<b>5,538,637</b>	<b>4,971,430</b>	<b>-</b>	<b>4,971,430</b>
Management and general	885,022	-	885,022	707,221	-	707,221
<b>Total operating expenses</b>	<b>6,423,659</b>	<b>-</b>	<b>6,423,659</b>	<b>5,678,651</b>	<b>-</b>	<b>5,678,651</b>
<b>Net revenue (deficit) from school operations</b>	<b>(453,709)</b>	<b>-</b>	<b>(453,709)</b>	<b>229,670</b>	<b>-</b>	<b>229,670</b>
Public support and other revenues (expenses):						
Public support:						
Contributions	99,892	-	99,892	87,565	-	87,565
In-kind contributions	207,408	-	207,408	-	-	-
Foundation and corporate support	119,155	31,000	150,155	158,349	-	158,349
Special events, net of expenses of \$59,282 and \$56,111, respectively	157,583	-	157,583	107,636	-	107,636
<b>Total public support</b>	<b>584,038</b>	<b>31,000</b>	<b>615,038</b>	<b>353,550</b>	<b>-</b>	<b>353,550</b>
Other revenue (expenses):						
Interest income	1,147	-	1,147	460	-	460
Miscellaneous	8,324	-	8,324	20	-	20
Fundraising expenses	(160,307)	-	(160,307)	(158,031)	-	(158,031)
Net assets released from time and purpose restrictions	-	-	-	72,108	(72,108)	-
<b>Total public support and other revenue (expenses)</b>	<b>433,202</b>	<b>31,000</b>	<b>464,202</b>	<b>268,107</b>	<b>(72,108)</b>	<b>195,999</b>
<b>Change in net assets</b>	<b>(20,507)</b>	<b>31,000</b>	<b>10,493</b>	<b>497,777</b>	<b>(72,108)</b>	<b>425,669</b>
Net assets:						
Beginning	1,772,661	-	1,772,661	1,274,884	72,108	1,346,992
Ending	\$ 1,752,154	\$ 31,000	\$ 1,783,154	\$ 1,772,661	\$ -	\$ 1,772,661

See notes to financial statements.

**Broome Street Academy Charter High School**

**Statements of Functional Expenses  
Years Ended June 30, 2016 and 2015**

	2016							2015						
	Program Services			Management and General	Fund Raising	Total Supporting Services	Total Expenses	Program Services			Management and General	Fund Raising	Total Supporting Services	Total Expenses
	Regular Education	Special Education	Total					Regular Education	Special Education	Total				
Salaries	\$ 2,431,720	\$ 904,731	\$ 3,336,451	\$ 281,366	\$ 75,597	\$ 356,963	\$ 3,693,414	\$ 2,329,356	\$ 783,993	\$ 3,113,349	\$ 240,639	\$ 79,648	\$ 320,287	\$ 3,433,636
Payroll taxes and employee benefits	601,112	220,828	821,940	57,146	10,622	67,768	889,708	543,591	184,000	727,591	64,440	14,288	78,728	806,319
Professional and administrative fees	137,770	43,172	180,942	330,278	69,734	400,012	580,954	73,914	21,336	95,250	221,721	58,162	279,883	375,133
Audit fees	13,918	4,395	18,313	10,208	2,000	12,208	30,521	13,279	4,829	18,108	10,072	2,000	12,072	30,180
Advertising and recruitment	8,110	2,579	10,689	1,168	-	1,168	11,857	11,761	3,511	15,272	607	821	1,428	16,700
Equipment and software maintenance	36,436	11,063	47,499	11,799	438	12,237	59,736	35,527	10,025	45,552	8,652	-	8,652	54,204
Equipment purchases	80,831	24,639	105,470	11,965	-	11,965	117,435	9,130	2,576	11,706	2,398	-	2,398	14,104
Insurance	21,889	6,991	28,880	5,508	-	5,508	34,388	21,440	7,536	28,976	5,524	-	5,524	34,500
Membership dues	13,484	13,149	26,633	1,032	-	1,032	27,665	9,823	9,936	19,759	947	-	947	20,706
Occupancy costs	270,875	85,629	356,504	70,933	-	70,933	427,437	275,304	78,308	353,612	68,148	434	68,582	422,194
Office, instructional supplies and materials	86,711	26,500	113,211	12,078	-	12,078	125,289	71,998	19,549	91,547	6,088	275	6,363	97,910
Postage, printing and copying	3,239	959	4,198	1,179	376	1,555	5,753	2,032	562	2,594	1,273	1,676	2,949	5,543
Staff development	37,796	12,112	49,908	18,365	-	18,365	68,273	6,257	2,078	8,335	5,828	74	5,902	14,237
Student meals	3,922	1,240	5,162	31	-	31	5,193	2,694	763	3,457	-	-	-	3,457
Telephone	12,055	3,682	15,737	3,567	-	3,567	19,304	13,107	3,782	16,889	2,957	-	2,957	19,846
Travel	281	88	369	868	-	868	1,237	580	155	735	144	-	144	879
Youth events	26,647	8,340	34,987	707	-	707	35,694	31,141	8,783	39,924	-	-	-	39,924
Miscellaneous expenses	633	200	833	1,224	1,365	2,589	3,422	95	27	122	1,595	478	2,073	2,195
Depreciation and amortization	289,473	91,438	380,911	65,600	175	65,775	446,686	281,437	97,215	378,652	66,188	175	66,363	445,015
<b>Total expenses</b>	<b>\$ 4,076,902</b>	<b>\$ 1,461,735</b>	<b>\$ 5,538,637</b>	<b>\$ 885,022</b>	<b>\$ 160,307</b>	<b>\$ 1,045,329</b>	<b>\$ 6,583,966</b>	<b>\$ 3,732,466</b>	<b>\$ 1,238,964</b>	<b>\$ 4,971,430</b>	<b>\$ 707,221</b>	<b>\$ 158,031</b>	<b>\$ 865,252</b>	<b>\$ 5,836,682</b>

See notes to financial statements.

**Broome Street Academy Charter High School**

**Statements of Cash Flows**  
**Years Ended June 30, 2016 and 2015**

	2016	2015
Cash flows from operating activities:		
Change in net assets	\$ 10,493	\$ 425,669
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	446,686	445,015
Amortization of deferred rent obligation	(46,883)	(46,882)
Changes in operating assets and liabilities:		
Increase in restricted cash	(48)	(119)
(Increase) decrease in grants, contracts and other receivables	(26,134)	50,972
Decrease (increase) in prepaid expenses and other assets	49,210	(50,178)
(Decrease) increase in refundable advances	(51,992)	53,349
Increase in accounts payable and accrued expenses	65,949	92,008
Increase in other liabilities	4,346	3,740
<b>Net cash provided by operating activities</b>	<b>451,627</b>	<b>973,574</b>
Cash flows from investing activities:		
Acquisitions of property and equipment	(179,231)	(163,418)
<b>Net cash used in investing activities</b>	<b>(179,231)</b>	<b>(163,418)</b>
<b>Net change in cash</b>	<b>272,396</b>	<b>810,156</b>
Cash:		
Beginning	1,654,373	844,217
Ending	\$ 1,926,769	\$ 1,654,373

See notes to financial statements.



## Broome Street Academy Charter High School

### Notes to Financial Statements

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#### **Note 1. Principal Business Activity and Summary of Significant Accounting Policies**

Broome Street Academy Charter High School (BSA) is a New York State, not-for-profit educational corporation operating as a charter school in Manhattan, New York. On October 19, 2010, the Board of Regents of the University of the State of New York granted the BSA a provisional charter valid for a term of five years, or until October 18, 2015. The provisional charter was extended to July 31, 2016. In February 2016, BSA was approved for full term charter renewal for five years, which will expire on July 31, 2021. The BSA's charter states that it will provide instruction to students in the ninth through twelfth grades.

BSA will prepare our young people for post-secondary success that leads to positive life outcomes. BSA values student strengths and will provide multiple pathways to success through a curriculum of rigorous academic, career and social instruction grounded in the principles of positive youth development. BSA is a tuition-free public charter high school devoted to providing students the necessary skills and support to graduate, while preparing them for a successful future beyond high school. The BSA's admissions policy gives preference to students who are homeless, in foster care, or from low performing middle schools.

BSA opened in the fall of 2011 with a freshman class. BSA has added one grade level since then, and hit its full capacity of ninth through twelfth grade in the 2014-2015 school year. The BSA model merges academic, social, and emotional services to prepare students to graduate with a New York State Regents diploma, providing opportunities for a successful future. Additionally, BSA is partnered with, and housed within, The Door - A Center of Alternatives, Inc. (The Door), a not-for-profit organization under Section 501(c)(3) of the Internal Revenue Code (the Code). Founded in 1972, The Door is a leading youth development agency that offers a full range of supportive programming in the areas of health, mental health, career and workforce development, legal services, supportive housing, and arts and recreation. Through the support found at BSA and The Door, New York City's most at-risk students will realize their greatest potential.

#### **Note 2. Summary of Significant Accounting Policies**

**Basis of financial statement presentation:** The financial statements of the BSA have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP). Net assets are classified and presented as unrestricted, temporarily restricted and permanently restricted based on the designation of donors. BSA had no permanently restricted net assets at June 30, 2016 and 2015.

**State and local per pupil operating revenue:** Revenue from the state and local governments resulting from BSA's charter status and based on the number of students enrolled is recorded when services are performed in accordance with the charter agreement.

**Grants and refundable advances:** BSA records certain government grants and contracts as refundable advances and deferred revenue until related services are performed, at which time it is recognized as revenue.

**Contributions:** Contributed assets are reported at fair value when BSA obtains possession or an unconditional promise to give. BSA reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions. Donor-restricted contributions whose restrictions are met in the same reporting period are reported as unrestricted contributions. Conditional contributions are recognized as revenue when the conditions on which they depend have been substantially met.

## Broome Street Academy Charter High School

### Notes to Financial Statements

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#### **Note 2. Summary of Significant Accounting Policies (Continued)**

Contributed supplies and materials for use in BSA's programs or distribution to students are recognized as revenue and expenses in the accompanying financial statements.

Contributed services are reported as contributions at their fair value if such services create or enhance any nonfinancial assets or would have been purchased if not provided by donation, require specialized skills and are provided by individuals possessing such specialized skills.

A number of volunteers have made a contribution of their time to BSA to develop its academic and other program and to serve on its board of trustees. The value of this contributed time is not reflected in these financial statements as such services do not meet the criteria for recognition under U.S. GAAP.

**Food services:** The New York City Department of Education provides free lunches to a majority of the BSA's students. Such costs are not included in these financial statements. The BSA covers the cost of lunches for children not entitled to the free lunches.

**Cash and concentration of credit risk:** BSA's cash in bank accounts is maintained with one financial institution, and balances at times may exceed federally insured limits. The BSA has not experienced any losses in such accounts.

**Property and equipment and related depreciation and amortization:** Property and equipment is recorded at cost. Additions and improvements in excess of \$5,000 with an estimated useful life of more than one year are capitalized. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Amortization of leasehold improvements is provided on the straight-line method over the remaining term of the lease.

**Accounting estimates:** The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates.

**Income taxes:** BSA is exempt from federal income taxes under Section 501(c)(3) of the Code. As a nonprofit organization, BSA is subject to unrelated business income tax (UBIT), if applicable. For the years ended June 30, 2016 and 2015, BSA did not owe any UBIT. Management has evaluated BSA's tax positions and concluded that the BSA had taken no uncertain tax positions that require adjustments or disclosure to these financial statements. Generally, BSA is no longer subject to income tax examinations by U.S. federal, state or local tax authorities for tax years before 2012, which is the standard statute of limitations look-back period.

**Recently issued accounting pronouncements:** In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)*. This new standard will replace all current U.S. GAAP guidance on this topic and eliminate all industry-specific guidance. The new revenue recognition standard provides a unified model to determine when and how revenue is recognized. The core principle is that a company should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration for which the entity expects to be entitled in exchange for those goods or services. The guidance provides a five step analysis of transactions to determine when and how revenue is recognized. Enhanced disclosures regarding the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers are also required.

## Broome Street Academy Charter High School

### Notes to Financial Statements

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#### **Note 2. Summary of Significant Accounting Policies (Continued)**

In August 2015, the FASB issued ASU 2015-14, which defers the effective date of ASU 2014-09 for one year, making it effective for BSA for annual reporting periods beginning after December 15, 2018, and interim reporting periods within annual reporting periods beginning after December 15, 2019. Early adoption is permitted as of an annual reporting period beginning after December 15, 2016. This guidance can be applied either retrospectively to each period presented or as a cumulative-effect adjustment as of the date of adoption. Management has not yet selected a transition method and is in the process of evaluating the impact of adopting this new accounting standard.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, which sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract (i.e. lessees and lessors). The new standard requires lessees to apply a dual approach, classifying leases as either finance or operating leases based on the principle of whether or not the lease is effectively a financed purchase by the lessee. This classification will determine whether lease expense is recognized based on an effective interest method or on a straight-line basis over the term of the lease, respectively. A lessee is also required to record a right-of-use asset and a lease liability for all leases with a term of greater than 12 months regardless of their classification. Leases with a term of 12 months or less will be accounted for similar to existing guidance for operating leases today. The new standard requires lessors to account for leases using an approach that is substantially equivalent to existing guidance for sales-type leases, direct financing leases and operating leases. The standard is effective on January 1, 2020, with early adoption permitted. Management has not evaluated the impact of this ASU on the financial statements.

In August 2016, the FASB issued Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The amendments in this ASU make improvements to the information provided in financial statements and accompanying notes of not-for-profit entities. The amendments set forth the FASB's improvements to net asset classification requirements and the information presented about a not-for-profit entity's liquidity, financial performance, and cash flows. The ASU will be effective for fiscal years beginning after December 15, 2017, early adoption permitted. The changes in this ASU should generally be applied on a retrospective basis in the year that the ASU is first applied. Management has not evaluated the impact of this ASU on the financial statements.

#### **Note 3. Restricted Cash**

The BSA maintains an escrow account, pursuant to its charter agreement, to pay off expenses in the event of dissolution of the BSA.

#### **Note 4. Grants, Contracts and Other Receivables**

Grants, contracts and other receivables are due in full within one year. Management has evaluated these receivables and concluded that all of these receivables will be collected in full when due and no allowance for uncollectible account is necessary.

## Broome Street Academy Charter High School

### Notes to Financial Statements

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#### Note 5. Property and Equipment, Net

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

	2016	2015	Estimated Useful Life
Furniture and equipment	\$ 224,259	\$ 224,259	3-5 years
Computer equipment	615,228	459,523	3-5 years
Leasehold improvements	950,322	926,796	Term of lease
	<u>1,789,809</u>	<u>1,610,578</u>	
Less accumulated depreciation and amortization	<u>(1,499,203)</u>	<u>(1,052,517)</u>	
	<u>\$ 290,606</u>	<u>\$ 558,061</u>	

#### Note 6. Pension Plan

BSA sponsors a 403(b) thrift plan. All employees are immediately eligible to begin making voluntary salary reduction contributions. Additionally, BSA has both an employer-based contribution and an employer matching contribution in the plan.

For the base employer contribution, employees must be at least age 21 and have two years of service to be eligible to start receiving the 3% employer base contribution. Participants will receive this base contribution regardless of whether they are contributing to the 403(b) plan or not. The employer base contribution is 100% immediately vested because the eligibility is two years.

For the employer match, the participant must be at least age 21 and have two years of service with BSA to be eligible to start receiving the employer match. After two years with BSA, if a participant is voluntarily contributing 1% salary reduction into the 403(b), BSA will then begin to match that and put in an employer matching contribution equivalent to 3%. With the employer match the vesting is also 100% immediate because the eligibility is two years.

During the years ended June 30, 2016 and 2015, BSA contributed \$93,283 and \$57,640, respectively, to the plan.

#### Note 7. Related Party Transactions

The Door is the sole member of BSA and three members of the board of The Door are also members of the 13-member board of BSA.

Pursuant to an approved services agreement, BSA paid The Door \$316,062 and \$260,000 during the years ended June 30, 2016 and 2015, respectively, for administrative support and fund-raising services, human resources services, fiscal management and information technology. Such amounts are included as professional and administrative fees in the statements of functional expenses. Service agreements between BSA and The Door are reviewed and approved annually by BSA's board of trustees.

BSA had a five-year operating lease agreement, commencing on July 1, 2011, with The Door for classrooms and office space at 121 Avenue of the Americas, New York, NY 10013, which expired on June 30, 2016. Pursuant to the amendments to this lease agreement in January 2015 and August 2013, BSA paid The Door rent amounting to \$455,872 and \$417,542 for the years ended June 30, 2016 and 2015, respectively. Such amounts are included as occupancy costs in the statements of functional expenses. For the fiscal year 2017, BSA entered into an additional rental agreement with The Door for a one-year term. The aggregate minimum rent payable is \$467,269.

## Broome Street Academy Charter High School

### Notes to Financial Statements

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#### **Note 7. Related Party Transactions (Continued)**

During the years ended June 30, 2016 and 2015, BSA, together with The Door, and University Settlement, two other 501(C)(3) organizations, held a joint special fundraising event whereas BSA's gross share of revenue from these events amounted to \$216,864 and \$163,747, respectively and its net proceeds (after expenses) were \$157,583 and \$107,636.

#### **Note 8. Rental Assistance**

During the years ended June 30, 2016 and 2015, BSA recognized \$213,567 and \$102,776, respectively, of rental assistance payments from the City of New York. As of June 30, 2015 an amount of \$27,554 was included as refundable advances in the statements of financial position related to overpayment received by BSA. There was no such balance at June 30, 2016.

#### **Note 9. Contingency**

Certain grants and contracts may be subject to audit by the funding sources. Such audits may result in disallowances of costs submitted for reimbursement by the BSA. Management does not anticipate that any cost disallowances will 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 10. Subsequent Events**

BSA evaluates events occurring after the date of the financial statements to consider whether or not the impact of such events needs to be reflected and/or disclosed in the financial statements. Such evaluation is preformed through the date the financial statements are available for issuance, which was October 17, 2016 for these financial statements.

**Independent Auditor's 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  
Broome Street Academy Charter High 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 Broome Street Academy Charter High School (BSA), 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 17, 2016.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered BSA'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 BSA's internal control. Accordingly, we do not express an opinion on the effectiveness of BSA'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 entity'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. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and response as 2015-001 that we consider to be a significant deficiency.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether BSA'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 an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards*, and which is described in the accompanying schedule of findings and response as 2015-001.

**BSA's Response to Findings**

BSA's response to the findings identified in our audit are described in the accompanying schedule of findings and response. BSA's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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

*RSM US LLP*

New York, New York  
October 17, 2016

## Broome Street Academy Charter High School

### Schedule of Findings and Response Year Ended June 30, 2016

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#### Significant Deficiency and Compliance Finding

##### **2015-001. Maintenance of Student Records**

**Criteria:** Charter schools receive public funding based on the number of students served and the authorized tuition rate for the school district of residence of the students attending the charter school. Accordingly, a charter school should maintain valid proof of residence and adequate admission and attendance records of students.

**Condition:** Our test of 25 sample student folders disclosed the following: (a) 4 student folders did not contain proof of address or residency; (b) 6 student folders did not contain registration or application forms, or the registration or application forms were not signed by the parent or guardian; and (c) 4 sample students (of the 6 student folders identified in (b)) applied online, but their electronic application records were no longer accessible according to management.

**Cause:** BSA serves New York City's most at-risk students, many of whom are homeless or in foster care, making it difficult for management to obtain the appropriate documentation.

**Effect:** Lack of valid proof of residency and adequate admission records makes it difficult to determine that the appropriate school district was billed for the correct level of the services (i.e. FTE).

**Recommendation:** We recommend the following courses of action:

- (a) Proof of residency and duly completed registration or application forms from students or their parents, guardians or caregivers should be obtained at the time of enrollment at BSA. A review of student folders should also be performed during the course of the year so that students, parents, guardians or caregivers could be promptly requested to submit missing documentation. BSA may also consider alternative means of verifying the address of its students.
- (b) Revisit the online application system to ensure that electronic records are accessible and available to BSA even after the school year.

**FY2016 Status Update:** Our test of 25 sample student folders disclosed the following: (a) 3 student folders did not contain copy of the child's birth certificate; and (b) 5 student folders did not contain registration or application forms, or the registration or application forms were not signed by the parent or guardian.

#### **Management's Response and Corrective Actions:**

- a) Two of the three students for whom birth records were not found are students that were not born in this country. One of those students has graduated and the other has transferred to a different program. The third student has not submitted his certificate of birth, has unstable living conditions and excessive absenteeism. The Director of Social Services is working with the team to try and secure this document.



**Broome Street Academy Charter High School**

**Schedule of Findings and Response  
Year Ended June 30, 2016**

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***Management's Response and Corrective Actions (Continued):***

- b) BSA participates in the Charter Center's Online Common Application used by all charter schools. Students that submit their application through this portal do not submit a paper application to be part of the lottery. Their information is imported from the website into an excel spreadsheet that BSA uses for the lottery. Once the site closes after the April deadline, BSA cannot access the records. Three of the students in this finding applied through this on-line portal. Two of the students in this finding pre-dated the current administration and have since graduated. We have corrected this as of the 2016-2017 school year with the introduction of the Schoolmint software which links with the common application enabling us to print the on-line application. BSA will be able to print the application and have the digital version on record.

Paper applications will continue to be completed for all transfer students and any other students admitted post lottery.

In addition, BSA will audit all records for active students to make sure these records are present.