

Broome Street Academy Charter High School

Financial Report
June 30, 2019

Contents

Independent auditor's report	1-2
<hr/>	
Financial statements	
Statements of financial position	3
Statements of activities	4
Statements of functional expenses	5
Statements of cash flows	6
Notes to financial statements	7-14
<hr/>	
Report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with <i>Government Auditing Standards</i>	15-16
<hr/>	
Schedule of findings and responses	17
<hr/>	



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, 2019 and 2018, 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 BSA 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.

Emphasis of Matter

As discussed in Note 2, BSA adopted ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, during the year ended June 30, 2019. The adoption of the standard resulted in additional footnote disclosures and changes to the classification of net assets and disclosures relating to net assets. The adoption was retrospectively applied to July 1, 2017; the earliest year presented. Our opinion is not modified with respect to this matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 30, 2019, 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 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 BSA'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 BSA's internal control over financial reporting and compliance.

RSM US LLP

New York, New York
October 30, 2019

Broome Street Academy Charter High School

**Statements of Financial Position
June 30, 2019 and 2018**

	2019	2018
Assets		
Cash	\$ 537,322	\$ 2,252,549
Restricted cash	75,445	75,407
Investments	1,621,962	-
Grants, contracts and other receivables	168,853	136,812
Prepaid expenses and other assets	55,159	37,896
Property and equipment, net	14,219	72,181
	<u>2,472,960</u>	<u>2,574,845</u>
Total assets	\$ 2,472,960	\$ 2,574,845
Liabilities and Net Assets		
Liabilities:		
Refundable advances	\$ 94,656	\$ 13,813
Accounts payable and accrued expenses	718,993	758,473
Other	40,707	20,998
	<u>854,356</u>	<u>793,284</u>
Total liabilities	854,356	793,284
Commitment and contingency		
Net assets:		
Without donor restrictions:		
Reserve – contingency	75,445	75,407
Undesignated for general use	1,528,940	1,633,973
Net investment in property and equipment	14,219	72,181
	<u>1,618,604</u>	<u>1,781,561</u>
Total net assets	1,618,604	1,781,561
	<u>2,472,960</u>	<u>2,574,845</u>
Total liabilities and net assets	\$ 2,472,960	\$ 2,574,845

See notes to financial statements.

Broome Street Academy Charter High School

**Statements of Activities
Years Ended June 30, 2019 and 2018**

	2019			2018		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Operating revenue:						
State and local per pupil operating revenue:						
Resident student enrollment	\$ 4,222,819	\$ -	\$ 4,222,819	\$ 4,670,781	\$ -	\$ 4,670,781
Students with disabilities	1,001,187	-	1,001,187	1,082,795	-	1,082,795
Other	235,182	-	235,182	194,368	-	194,368
New York City Department of Education						
rental assistance	343,779	-	343,779	340,254	-	340,254
Government grants and contracts	256,052	-	256,052	319,132	-	319,132
In-kind contributions	92,678	-	92,678	283,107	-	283,107
Net assets released from time and purpose restrictions	-	-	-	6,575	(6,575)	-
Total operating revenue	6,151,697	-	6,151,697	6,897,012	(6,575)	6,890,437
Operating expenses:						
Program services:						
Regular education	4,423,386	-	4,423,386	4,773,584	-	4,773,584
Special education	1,149,409	-	1,149,409	1,315,736	-	1,315,736
Total program services	5,572,795	-	5,572,795	6,089,320	-	6,089,320
Management and general	1,117,630	-	1,117,630	1,080,260	-	1,080,260
Total operating expenses	6,690,425	-	6,690,425	7,169,580	-	7,169,580
Net deficit from school operations	(538,728)	-	(538,728)	(272,568)	(6,575)	(279,143)
Public support and other revenues (expenses):						
Public support:						
Contributions	134,480	-	134,480	140,938	-	140,938
Foundation and corporate support	1,600	-	1,600	1,894	-	1,894
Special events, net of expenses of \$104,718 and \$96,200, respectively	363,462	-	363,462	253,190	-	253,190
Total public support	499,542	-	499,542	396,022	-	396,022
Other revenue (expenses):						
Interest income	33,510	-	33,510	1,371	-	1,371
Miscellaneous	69,206	-	69,206	1,778	-	1,778
Fundraising expenses	(226,487)	-	(226,487)	(224,561)	-	(224,561)
Total public support and other revenue (expenses)	375,771	-	375,771	174,610	-	174,610
Change in net assets	(162,957)	-	(162,957)	(97,958)	(6,575)	(104,533)
Net assets:						
Beginning	1,781,561	-	1,781,561	1,879,519	6,575	1,886,094
Ending	\$ 1,618,604	\$ -	\$ 1,618,604	\$ 1,781,561	\$ -	\$ 1,781,561

See notes to financial statements.

Broome Street Academy Charter High School

Statements of Functional Expenses Years Ended June 30, 2019 and 2018

	2019							2018						
	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:														
Administrative staff	\$ 125,849	\$ 34,148	\$ 159,997	\$ 335,616	\$ 39,001	\$ 374,617	\$ 534,614	\$ 62,857	\$ 16,132	\$ 78,989	\$ 341,725	\$ 22,646	\$ 364,371	\$ 443,360
Instructional	2,113,721	532,355	2,646,076	-	-	-	2,646,076	2,048,217	566,483	2,614,700	-	-	-	2,614,700
Non-instructional	629,710	176,357	806,067	-	-	-	806,067	830,543	223,200	1,053,743	-	-	-	1,053,743
Payroll taxes and employee benefits	645,077	150,095	795,172	107,039	6,657	113,696	908,868	720,424	184,517	904,941	88,058	3,990	92,048	996,989
Professional and administrative fees	195,426	58,555	253,981	486,115	174,351	660,466	914,447	300,508	94,986	395,494	490,986	189,495	680,481	1,075,975
Audit fees	27,640	7,136	34,776	5,427	-	5,427	40,203	25,966	8,741	34,707	3,715	-	3,715	38,422
Advertising and recruitment	37,352	11,695	49,047	7,587	-	7,587	56,634	32,349	10,556	42,905	4,542	-	4,542	47,447
Equipment and software maintenance	76,872	19,910	96,782	19,016	2,926	21,942	118,724	59,776	19,364	79,140	8,328	6,060	14,388	93,528
Equipment purchases	8,907	2,282	11,189	5,364	87	5,451	16,640	34,829	9,783	44,612	3,313	-	3,313	47,925
Insurance	25,304	6,440	31,744	5,058	-	5,058	36,802	24,216	8,152	32,368	3,465	-	3,465	35,833
Membership dues	4,976	1,219	6,195	847	62	909	7,104	15,438	5,180	20,618	2,066	705	2,771	23,389
Occupancy costs	330,659	90,639	421,298	86,722	-	86,722	508,020	335,697	92,052	427,749	80,120	-	80,120	507,869
Office, instructional supplies and materials	44,586	12,624	57,210	21,593	-	21,593	78,803	62,407	18,855	81,262	8,412	-	8,412	89,674
Postage, printing and copying	5,843	1,687	7,530	5,393	2,148	7,541	15,071	710	238	948	3,301	1,539	4,840	5,788
Staff development	13,489	4,891	18,380	10,004	5	10,009	28,389	59,382	10,907	70,289	15,445	11	15,456	85,745
Student meals	27,423	6,200	33,623	-	-	-	33,623	108	11	119	-	-	-	119
Telephone	28,640	7,275	35,915	5,711	-	5,711	41,626	28,050	9,868	37,918	3,929	-	3,929	41,847
Travel	106	25	131	20	-	20	151	861	2	863	16	30	46	909
Youth events	39,067	11,919	50,986	2,358	466	2,824	53,810	60,453	16,867	77,320	706	-	706	78,026
Miscellaneous expenses	3,883	1,255	5,138	4,578	784	5,362	10,500	2,856	675	3,531	6,156	85	6,241	9,772
Depreciation and amortization	38,856	12,702	51,558	9,182	-	9,182	60,740	67,937	19,167	87,104	15,977	-	15,977	103,081
Total expenses	\$ 4,423,386	\$ 1,149,409	\$ 5,572,795	\$ 1,117,630	\$ 226,487	\$ 1,344,117	\$ 6,916,912	\$ 4,773,584	\$ 1,315,736	\$ 6,089,320	\$ 1,080,260	\$ 224,561	\$ 1,304,821	\$ 7,394,141

See notes to financial statements.

Broome Street Academy Charter High School

Statements of Cash Flows
Years Ended June 30, 2019 and 2018

	2019	2018
Cash flows used in operating activities:		
Change in net assets	\$ (162,957)	\$ (104,533)
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation and amortization	60,740	103,081
Changes in operating assets and liabilities:		
Increase (decrease) in grants, contracts and other receivables	(32,041)	13,186
Increase (decrease) in prepaid expenses and other assets	(17,263)	6,325
Increase in refundable advances	80,843	5,060
Decrease (increase) in accounts payable and accrued expenses	(39,480)	50,825
Increase in other liabilities	19,709	6,860
Net cash (used in) provided by operating activities	(90,449)	80,804
Cash flows from investing activities:		
Acquisitions of property and equipment	(2,778)	(5,511)
Purchases of investments	(1,621,962)	-
Increase in restricted cash	(38)	(37)
Net cash used in investing activities	(1,624,778)	(5,548)
Net change in cash	(1,715,227)	75,256
Cash:		
Beginning	2,252,549	2,177,293
Ending	\$ 537,322	\$ 2,252,549

See notes to financial statements.

Broome Street Academy Charter High School

Notes to Financial Statements

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

Broome Street Academy Charter High School (BSA) is a New York State, nonprofit 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 BSA a provisional charter valid for a term of five years and renewable upon expiration. In April 2016, BSA's charter was renewed for five additional years. BSA's charter states that it will provide instruction to students in the ninth through twelfth grades for a period of five years.

BSA prepares its students for post-secondary success that leads to positive life outcomes. BSA values student strengths and provides 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. 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. Since then, BSA grew by one grade level at a time until it hit capacity (ninth through twelfth grade) in the 2015-2016 school year. 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 nonprofit organization organized pursuant to 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 BSA have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America (GAAP).

Financial statement presentation and net assets: Net assets are classified and presented as with donor restriction and without donor restriction, based on the designation of donors. BSA had no net assets with donor restrictions at June 30, 2019 and 2018.

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. BSA has not experienced any losses in such accounts.

Investments and investment returns: Investments are valued at fair value, as discussed in Note 4, with the resulting change in unrealized gains or losses included in the statements of activities. Investment transactions are recorded on a trade-date basis and gains and losses on the sale of investments are calculated by the specific-identification method. Investment income and net gains or losses on investments are recognized as increases or decreases in net assets without donor restriction, unless their use is restricted by the donor.

Broome Street Academy Charter High School

Notes to Financial Statements

Note 2. Summary of Significant Accounting Policies (Continued)

Fair value measurements: In accordance with GAAP, BSA uses the following prioritized input levels to measure fair value of investments. The input levels used for valuing investments are not necessarily an indication of risk.

Level 1: Observable inputs that reflect quoted prices for identical assets or liabilities in active markets, such as stock quotes.

Level 2: Includes inputs other than Level 1 inputs that are directly or indirectly observable in the marketplace, such as yield curves or other market data.

Level 3: Unobservable inputs, which reflect the reporting entity's assessment of the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk, such as bid/ask spreads and liquidity discounts.

The fair values of money market funds were determined using Level 2 inputs, which were based on observable inputs other than quoted prices for identical assets in active markets. Management believes the fair values of investments to be a reasonable approximation of their exit price.

Accounts receivable: Accounts receivable are carried at original invoice amount less an estimate made for doubtful receivables based on a review of all outstanding amounts on a periodic basis. Management determines the allowance for doubtful accounts by regularly evaluating individual customer receivables and considering a customer's financial condition, credit history, and current economic conditions. No allowance for doubtful accounts was deemed necessary as of June 30, 2019 and 2018. Accounts receivable are written off when deemed uncollectible. Recoveries of accounts receivable previously written off are recorded when received.

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.

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.

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, net assets with donor restriction are reclassified to net assets without donor restriction, and reported in the statements of activities as net assets released from donor restriction. Donor-restricted contributions whose restrictions are met in the same reporting period are reported as contributions without donor restriction. Conditional contributions are recognized as revenue when the conditions on which they depend have been substantially met.

Contributed supplies and materials for use in BSA's programs or for 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.

Broome Street Academy Charter High School

Notes to Financial Statements

Note 2. Summary of Significant Accounting Policies (Continued)

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 (Board). The value of this contributed time is not reflected in these financial statements as such services do not meet the criteria for recognition under GAAP as such services either do not require specialized skills or would not typically be purchased had they not been provided by donation.

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

Property and equipment and related depreciation and amortization: Property and equipment is recorded at cost. Additions and improvements, the individual or collective cost of which exceeds \$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 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 Internal Revenue Code. As a nonprofit organization, BSA is subject to unrelated business income tax (UBIT), if applicable. For the years ended June 30, 2019 and 2018, BSA owed UBIT of \$9,868 and \$4,283, respectively. Management has evaluated BSA's tax positions and concluded that 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 2016, which is the standard statute of limitations look-back period.

Recently adopted accounting pronouncement: During 2018, the Organization adopted Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, which amends the requirements for financial statements and notes in Topic 958 to require BSA to make reporting changes that effect the following:

- Net asset classifications and related disclosures.
- Underwater donor-restriction endowments and related disclosures.
- Additional disclosure useful in assessing liquidity within one year of the balance sheet date.
- New reporting requirements related to expenses including disclosure of expenses by both nature and function.
- Reporting of net investment return.

BSA made changes to terminology and classification as described above as well as additional or modified disclosures, particularly Notes 3 and 10. Amounts previously reported for the year ended June 30, 2018, have been reclassified, on a retrospective basis, to achieve consistent presentation. Amounts previously reported as temporarily restricted net assets have been reclassified to be reported as with donor restrictions.

Broome Street Academy Charter High School

Notes to Financial Statements

Note 2. Summary of Significant Accounting Policies (Continued)

Recently issued accounting pronouncements: In May 2014, the Financial Accounting Standards Board (FASB) issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. This new standard will replace all current 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.

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 standard is effective for annual report periods beginning after December 15, 2019, with early adoption permitted. Management has not evaluated the impact of this ASU on the financial statements.

In August 2016, FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230) Classification of Certain Cash Receipts and Cash Payments*, which will make eight targeted changes to how cash receipts and cash payments are presented and classified in the statement of cash flows. ASU 2016-15 will be effective for fiscal years beginning after December 15, 2018, and will require adoption on a retrospective basis unless it is impracticable to apply, in which case we would be required to apply amendments prospectively as of the earliest date practicable. BSA is currently evaluating the impact of this ASU on the financial statements and disclosures.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash (a consensus of the FASB Emerging Issues Task Force)*, which provides guidance on the presentation of restricted cash or restricted cash equivalents in the statement of cash flows. These amendments are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. ASU 2016-18 must be applied using a retrospective transition method with early adoption permitted. BSA is currently evaluating the impact that adoption will have on the statements of cash flows.

Broome Street Academy Charter High School

Notes to Financial Statements

Note 2. Summary of Significant Accounting Policies (Continued)

In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contribution Made*. This ASU clarifies the guidance for evaluating whether a transaction is reciprocal (i.e., an exchange transaction) or nonreciprocal (i.e., a contribution) and for distinguishing between conditional and unconditional contributions. The ASU also clarifies the guidance used by entities other than not-for-profits to identify and account for contributions made. The ASU has different effective dates for resource recipients and resource providers. As BSA is a resource recipient, the ASU is applicable to contributions received for annual periods beginning after December 15, 2018, and interim periods within annual periods beginning after December 15, 2019. Early adoption is permitted. BSA is currently evaluating the impact of the adoption of this guidance on its financial statements.

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurements (Topic 820): Disclosure Framework – Changing the Disclosure Requirement for Fair Value Measurement*. This ASU modifies the disclosure requirement for fair value investments, and removes disclosure related to transfers between Level 1 and Level 2 of the fair value hierarchy, the policy for timing transfers between levels, and the valuation process of Level 3 fair value measurements and a roll forward of Level 3 investments. Furthermore, entities are no longer required to estimate and disclose the timing of liquidity events for investments measured at fair value. Instead, the requirement to disclose such events applies only when they have been communicated to the reporting entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Early adoption is permitted. BSA is currently evaluating the impact of the adoption of this guidance on the consolidated financial statements.

Note 3. Liquidity and Availability of Resources

As of June 30, 2019, financial assets available within one year for general expenditure, such as operating expenses, scheduled principal payments on debt, and capital construction costs not financed with debt, were as follows:

Cash and cash equivalents	\$ 537,322
Grants, contracts, and other receivables	168,853
Short-term investments	<u>1,621,962</u>
Total financial assets available within one year	<u><u>\$ 2,328,137</u></u>

BSA has a policy to maintain available cash and short-term investments to meet 90 days of normal operating expenses, which are, on average, approximately \$1,800,000.

BSA has various sources of liquidity at its disposal to meet its current general operating expenditures. These liquid assets include cash and cash equivalents, receivables due in less than one year and investments convertible to cash in the next 12 months.

Broome Street Academy Charter High School

Notes to Financial Statements

Note 4. Investments and Fair Value Measurement

Investments measured at fair value by level within the fair value hierarchy as of June 30, 2019, are as follows:

	Fair Value	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Money market funds–fixed income	\$ 1,621,962	\$ -	\$ 1,621,962	\$ -
Total investments	\$ 1,621,962	\$ -	\$ 1,621,962	\$ -

Net investment return consisted of the following for the years ended June 30:

	2019	2018
Interest and dividends	\$ 21,962	\$ -
Total net investment return	\$ 21,962	\$ -

Note 5. Restricted Cash

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

Note 6. Property and Equipment, Net

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

	2019	2018	Estimated Useful Life
Furniture and equipment	\$ 234,313	\$ 234,313	3-5 years
Computer equipment and software	623,517	620,740	3-5 years
Leasehold improvements	950,322	950,322	Term of lease
	1,808,152	1,805,375	
Less accumulated depreciation and amortization	(1,793,933)	(1,733,194)	
	\$ 14,219	\$ 72,181	

Note 7. 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.

Broome Street Academy Charter High School

Notes to Financial Statements

Note 7. Pension Plan (Continued)

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.

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.

During the years ended June 30, 2019 and 2018, BSA contributed \$90,343 and \$119,825, respectively, to the plan.

Note 8. Related Party Transactions

The Door is the sole member of BSA and two members of the board of trustees of The Door are also members of the board of BSA. The Door assisted with the establishment of BSA and in obtaining its charter, and acted as fiscal conduit for BSA before BSA was incorporated.

Pursuant to an approved services agreement, BSA paid The Door \$393,987 and \$445,302 during the years ended June 30, 2019 and 2018, 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. As of June 30, 2019 and 2018, BSA owed The Door an amount of \$18,975 and \$7,244, respectively, which was included in accounts payable and accrued expenses in the statements of financial position. Service agreements between BSA and The Door are reviewed and approved annually by the Board.

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 subsequent amendments to this lease agreement, BSA paid The Door rent that amounted to \$495,726 and \$481,287 for the years ended June 30, 2019 and 2018, respectively. Such amounts are included as occupancy cost in the statements of functional expenses.

As part of the lease amendment entered into in June 2019, BSA extended the lease agreement with The Door for a one-year term, which is set to expire on June 30, 2020. The aggregate future minimum rent is \$520,512.

During the year ended June 30, 2019, BSA, together with The Door, held a joint special fundraising event from which BSA's gross share of revenue amounted to \$468,180 and its net proceeds (after expenses) were \$363,462. During the year ended June 30, 2018, BSA, together with The Door, and University Settlement, another 501(C)(3) organization, held a joint special fundraising event from which BSA's gross share of revenue amounted to \$349,390 and its net proceeds (after expenses) were \$253,190.

During the years ended June 30, 2019 and 2018, BSA received an in-kind legal service from member of the Board in the amount of \$73,115 and \$265,000, respectively.

Note 9. Rental Assistance

During the years ended June 30, 2019 and 2018, BSA recognized \$343,779 and \$340,254, respectively, of rental assistance payments from the City.

Broome Street Academy Charter High School

Notes to Financial Statements

Note 10. Functional Allocation of Expenses

Certain expenses are attributable to more than one program or supporting function. Management has reviewed all overhead costs and determined that it is appropriate to allocate a portion of these costs to the program services. A number of allocation methodologies are used, as summarized below.

- **Compensation for personnel services:** Personnel costs are either directly charged to a cost center or allocated between the programs based on the estimated percentage of time spent serving each of these programs.
- **Rent:** The allocation of occupancy cost is done based on square feet used by BSA, the information is revised every year for any changes with the Executive Director of the Door and the Facilities Director. The percentage of occupancy cost will also be applied to any maintenance cost of the school space. Utilities are included and accounted for as a part of the rent for the building.
- **Student allocation:** The Regular and Special Education student expenses allocation is done based on the number of students, as per the per pupil invoice provided by BSA Director of Operations.
- **Other than personnel services (OTPS):** For OTPS that benefits all the cost centers of the school, allocation is based on FTE by Department. FTE calculations are supported by employee payroll records.

Note 11. 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 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 12. 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 performed through the date the financial statements are available for issuance, which was October 30, 2019, for these financial statements.

**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, 2019, 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 30, 2019.

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 responses as 2019-001 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 responses as 2019-001.

BSA's Response to Findings

BSA's response to the findings identified in our audit, are described in the accompanying schedule of findings and responses. 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 30, 2019

Broome Street Academy Charter High School

Schedule of Findings and Responses Year Ended June 30, 2019

Significant Deficiency and Compliance Finding

2019-001. 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 student folders disclosed that 2 student folders did not contain registration or application forms, or the registration or application forms were not signed by the parent or guardian.

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 review of student folders should be performed during the course of the year so that students, parents, guardians or caregivers could be promptly requested to submit missing documentation and signature.

FY2016 status update: Our test of 25 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.

FY2017 status update: Our test of 25 student folders disclosed 4 student folders did not contain registration or application forms, or the registration or application forms were not signed by the parent or guardian. All 4 individuals were admitted to the school in fiscal year-end June 30, 2016 and prior.

FY2018 status update: Our test of 20 student folders disclosed one student with application forms which was not signed by the parent or guardian. The student was admitted to the school in fiscal year-end June 30, 2018 and prior.

Management's response and corrective actions:

As reported in prior years' corrective action plans, prior to the 2016-2017, BSA participated in the Charter Center's Online Common Application used by all charter schools to extract the enrollment information, but was unable to print out a paper application. BSA has corrected this with the introduction of the Schoolmint software, which links with the common application enabling BSA to print the on-line application. BSA is now able to print the application and have the digital version on record. All students accepted through the lottery now go through Schoolmint, thus creating a digital application form that we print for the permanent student record.

All transfer students and any other students admitted post lottery also apply through the Schoolmint software, therefore creating a digital file for all students that we print for the permanent student record.

In addition BSA completed an audit of all records for active students to make sure that all registration paperwork is submitted, recorded and filed in the active permanent student folder.

Management fully expects this matter to be resolved no later than the 2020-2021 school year, if not sooner, as all students admitted prior to the Schoolmint software would have graduated from BSA.