

**FORTE PREPARATORY ACADEMY  
CHARTER SCHOOL**

Audited Financial Statements In Accordance  
With Government Auditing Standards  
June 30, 2018

# FORTE PREPARATORY ACADEMY CHARTER SCHOOL

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## **Independent Auditor's Report**

To the Board of Trustees of  
Forte Preparatory Academy Charter School

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Forte Preparatory Academy Charter School (the "School"), which comprise the statement of financial position as of June 30, 2018, and the related statements of activities, functional expenses, and cash flows from inception through June 30, 2018, 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 organization'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 organization'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.

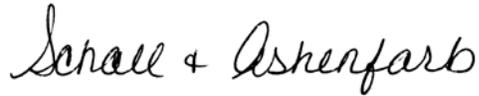
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Forte Preparatory Academy Charter School as of June 30, 2018, and the changes in its net assets and its cash flows for the period from inception through June 30, 2018 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 report dated October 15, 2018 on our consideration of the School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control over financial reporting and compliance.



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Schall & Ashenfarb  
Certified Public Accountants, LLC

October 15, 2018

**FORTE PREPARATORY ACADEMY CHARTER SCHOOL  
STATEMENT OF FINANCIAL POSITION  
AS OF JUNE 30, 2018**

**Assets**

Cash and cash equivalents	\$101,078
Restricted cash (Note 3)	25,000
Grants receivable - New York City (Note 4)	0
Government grants receivable	113,827
Prepaid expenses and other assets	166,856
Fixed assets (Note 5)	116,567
Security deposit	<u>264,667</u>
 Total assets	 <u><u>\$787,995</u></u>

**Liabilities and Net Assets**

Liabilities:	
Accounts payable and accrued expenses	<u>125,904</u>
Net assets:	
Unrestricted	<u>662,091</u>
 Total liabilities and net assets	 <u><u>\$787,995</u></u>

*The attached notes and auditor's report are an integral part of these financial statements.*

**FORTE PREPARATORY ACADEMY CHARTER SCHOOL  
STATEMENT OF ACTIVITIES  
FROM INCEPTION THROUGH JUNE 30, 2018**

Unrestricted:	
Public support and revenue:	
Public school district: (Note 4)	
Revenue - resident student enrollment	\$1,265,912
Revenue - students with disabilities	252,242
Total public school district	<u>1,518,154</u>
Government grants - other	867,983
Contributions	<u>369,872</u>
Total revenue and public support	<u>2,756,009</u>
Expenses:	
Program services:	
Regular education	1,237,109
Special education	312,686
Total program services	<u>1,549,795</u>
Supporting services:	
Management and general	513,617
Fundraising	<u>30,506</u>
Total expenses	<u>2,093,918</u>
Change in net assets	662,091
Net assets - beginning	<u>0</u>
Net assets - ending	<u><u>\$662,091</u></u>

*The attached notes and auditor's report are an integral part of these financial statements.*

**FORTE PREPARATORY ACADEMY CHARTER SCHOOL  
SCHEDULE OF FUNCTIONAL EXPENSES  
FROM INCEPTION THROUGH JUNE 30, 2018**

	Program Services			Supporting Services		Total Expenses
	Regular Education	Special Education	Total Program Services	Management and General	Fundraising	
Salaries	\$664,396	\$175,729	\$840,125	\$213,154	\$25,409	\$1,078,688
Payroll taxes and benefits	133,267	35,248	168,515	42,755	5,097	216,367
<b>Total personnel costs</b>	<b>797,663</b>	<b>210,977</b>	<b>1,008,640</b>	<b>255,909</b>	<b>30,506</b>	<b>1,295,055</b>
Curriculum and classroom expenses	74,001	16,310	90,311			90,311
Professional fees	95,889	25,985	121,874	183,207		305,081
Office expenses	5,002	1,103	6,105	46,327		52,432
Equipment	4,077	899	4,976	11,408		16,384
Facilities expense	172,556	38,033	210,589	6,513		217,102
Recruitment	29,228	6,442	35,670			35,670
Professional development	8,695	1,916	10,611			10,611
Insurance	18,065	3,982	22,047	3,890		25,937
Other expenses	7,076	1,560	8,636	5,425		14,061
Depreciation	24,857	5,479	30,336	938		31,274
<b>Total expenses</b>	<b>\$1,237,109</b>	<b>\$312,686</b>	<b>\$1,549,795</b>	<b>\$513,617</b>	<b>\$30,506</b>	<b>\$2,093,918</b>

*The attached notes and auditor's report are an integral part of these financial statements.*

**FORTE PREPARATORY ACADEMY CHARTER SCHOOL  
STATEMENT OF CASH FLOWS  
FROM INCEPTION THROUGH JUNE 30, 2018**

Cash flows from operating activities:	
Change in net assets	\$662,091
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	31,274
Changes in assets and liabilities:	
Restricted cash	(25,000)
Government grants receivable	(113,827)
Prepaid expenses and other assets	(166,856)
Security deposit	(264,667)
Accounts payable and accrued expenses	125,904
Total adjustments	<u>(413,172)</u>
Net cash flows provided by operating activities	<u>248,919</u>
 Cash flows from investing activities:	
Purchases of furniture and equipment	<u>(147,841)</u>
Net cash used for investing activities	<u>(147,841)</u>
 Net increase in cash and cash equivalents	101,078
 Cash and cash equivalents - beginning	<u>0</u>
 Cash and cash equivalents - ending	<u><u>\$101,078</u></u>
 Supplemental disclosures:	
Interest and taxes paid	<u><u>\$0</u></u>

*The attached notes and auditor's report are an integral part of these financial statements.*

**FORTE PREPARATORY ACADEMY CHARTER SCHOOL**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

**Note 1 - Organization**

Forte Preparatory Academy Charter School (the "School"), located in Queens, New York, is a not-for-profit education corporation chartered by the Board of Regents of the State of New York. Through rigorous academics, quality instruction, and a positive culture of individual and collective responsibility, the School equips all students in grades 5 through 8 to excel in college preparatory high schools and use their leadership and voice to change the world. The School completed the 2017-2018 fiscal year with an average enrollment of approximately 87 students. The School is a publicly funded, privately managed school, which is independent of the New York City Department of Education ("NYCDOE"). On October 11, 2016, the School was granted a provisional charter for a term up to and including June 30, 2021.

The School has been notified by the Internal Revenue Service that it is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes has been reflected in the accompanying financial statements. They have not been designated as a private foundation.

**Note 2 - Summary of Significant Accounting Policies**

a. Basis of Presentation

The financial statements have been prepared using the accrual basis of accounting, which is the process of recognizing revenue and expenses when earned or incurred rather than received or paid.

Net assets are classified based upon the existence or absence of donor-imposed restrictions as follows:

- *Unrestricted* – represent those resources for which there are no restrictions by donors as to their use.
- *Temporarily restricted* – represent those resources, the uses of which have been restricted by donors for a specific purpose or the passage of time. The release from restrictions results from the satisfaction of the restricted purposes specified by the donor. Temporarily restricted contributions, the requirements of which are met in the year of donation, are reported as unrestricted. The School did not have any temporary restricted net assets at June 30, 2018.
- *Permanently restricted* – represents activity restricted by donors that must remain intact in perpetuity. The School did not have any permanently restricted net assets at June 30, 2018.

b. Cash and Cash Equivalents

The School considers all liquid investments purchased with a maturity of three months or less to be cash and cash equivalents.

c. Concentration of Credit

Financial instruments, which potentially subject the School to concentration of credit risk, consist of cash accounts, which have been placed with financial institutions that management deems to be creditworthy. At times, balances may exceed federally insured limits. At June 30, 2018, there were no uninsured balances.

d. Capitalization Policy

Computer hardware, furniture, and equipment are capitalized at cost or at the fair value at the date of gift, if donated. The School capitalizes fixed assets in excess of pre-defined amounts that have a useful life of more than one year. Depreciation was computed using the straight-line method over the estimated useful life of each asset, which generally is between 3 and 5 years.

e. Contributions

Contributions are recorded as revenue at the earlier of the receipt of cash or when a pledge is considered unconditional in nature. Contributions are available for unrestricted use, unless specifically restricted by the donor, in which case they are recorded in one of the restricted classes of net assets, depending on the nature of the restriction.

Contributions expected to be received within one year are recorded at net realizable value. Long-term pledges are recorded at fair value using a risk adjusted discount rate. Conditional contributions are recognized as income when the conditions have been substantially met.

f. Revenue – Public School District and Government Grants

Public school district revenue is recognized based on rates established by the School's funding source and the amount realizable on the accrual basis in the period during which services are provided.

All government grants have been recognized as income when earned, either based on performance of certain milestones or by incurring expenses that can be reimbursed under the terms of the grant agreement. The difference between cash received and revenue recognized is reflected as government grants receivable or refundable advances.

g. Donated Services

Donated services are recognized in circumstances where those services create or enhance non-financial assets or require specialized skills, are provided by individuals possessing those skills and would typically need to be purchased, if not provided in-kind.

Board members and other individuals volunteer their time and perform a variety of tasks that assist the School. These services do not meet the criteria outlined above and have not been recorded in the financial statements.

- h. Functional Allocation of Expenses  
The costs of providing various programs and other activities have been summarized on a functional basis in the accompanying financial statements. Accordingly, certain costs have been allocated among the programs and supporting services benefited.
- i. Use of Estimates  
The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.
- j. Contingencies  
Government contracts are subject to audit by the grantor. Management does not believe that any audits, if they were to occur, would result in material disallowed costs, and has not established any reserves. Any disallowed costs would be recorded in the period notified.
- k. Accounting for Uncertainty in Income Taxes  
The School does not believe its financial statements include any material, uncertain tax positions. Tax filings for periods ending June 30, 2017, the School's initial filing, and later are subject to examination by applicable taxing authorities.
- l. Subsequent Events  
Management has evaluated for potential recognition and disclosure events subsequent to the date of the statement of financial position through October 15, 2018, the date the financial statements were available to be issued. No events have occurred subsequent to the statement of financial position date through our evaluation date that would require adjustment to or disclosure in the financial statements.
- m. New Accounting Pronouncement  
The Financial Accounting Standards Board (FASB) issued an Accounting Standards Update (ASU) No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. The ASU, which becomes effective for the June 30, 2019 year, focuses on improving the current net asset classification requirements and information presented in the financial statements and notes that is useful in assessing a not-for-profit's liquidity, financial performance and cash flows. In addition, under the ASU, not-for-profits will no longer be able to imply a time restriction over donor-restricted contributions of fixed assets.

FASB issued ASU No. 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The ASU, which becomes effective for the June 30, 2020 year, provides guidance on whether a receipt from a third-party resource provider should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958, Not-for-Profit Entities, or as exchange (reciprocal) transactions.

The School is in the process of evaluating the impact these standards will have on future financial statements.

**Note 3 - Restricted Cash**

An escrow account has been established to meet the requirement of the Board of Regents of the State of New York. The purpose of this account is to ensure sufficient funds are available for an orderly dissolution or transition process in the event of termination of the charter or school closure.

**Note 4 - New York City Department of Education Contract**

Activity related to the contract with the NYCDOE during the year ended June 30, 2018 can be summarized as follows:

Per pupil funding:	
Funding based on allowable FTE's	\$1,518,154
Advances received	<u>(1,518,154)</u>
Ending grant receivable	<u>\$0</u>

**Note 5 - Fixed Assets**

Fixed assets consist of the following:

Furniture, fixtures and equipment	\$147,841
Less: accumulated depreciation	<u>(31,274)</u>
Total	<u>\$116,567</u>

**Note 6 - Significant Concentrations**

The School is dependent upon grants from the NYCDOE to carry out its operations. Approximately 55% of the School's total public support and revenue was from NYCDOE for the period from inception through June 30, 2018. If the NYCDOE were to discontinue funding, it would have a severe economic impact on the School's ability to operate.

**Note 7 - Commitments**

The School occupies space in Queens, New York under a lease agreement that expired on June 30, 2018. On March 22, 2018, this lease was extended through June 30, 2020 and included additional space.

Future minimum payments due under the lease are \$769,500 for the year ending June 30, 2019 and \$1,154,250 for the year ending June 30, 2020. The School can terminate the lease on June 30, 2019 in exchange for an early termination fee of \$294,000 unless it finds a substitute tenant for the space.

**Note 8 - Retirement Plan**

The School has a retirement plan under Section 403(b) of the Internal Revenue Code. All employees are immediately eligible to participate and may elect to defer a portion of their salary and contribute to this plan up to statutory amounts. Full time employees receive an employer base contribution equal to 100% of the salary reduction contributions made by the employee for the calendar year, not to exceed 3% of the employee's salary.

There were no employee contributions to the plan during the period from inception through June 30, 2018 so the School did not provide any matching contributions. The following vesting periods apply:

<u>Period</u>	<u>Vesting Percentage</u>
Less than 2 years	0%
3 years or more	100%

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING  
STANDARDS***

To the Board of Trustees of  
Forte Preparatory Academy Charter School

**Report on the Financial Statements**

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 Forte Preparatory Academy Charter School (the "School"), which comprise the statement of financial position as of June 30, 2018, and the related statements of activities, functional expenses, and cash flows for the period from inception through June 30, 2018 and the related notes to the financial statements, and have issued our report thereon dated October 15, 2018.

**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 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. *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.

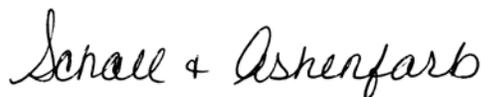
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during 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 of 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 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.



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Schall & Ashenfarb  
Certified Public Accountants, LLC

October 15, 2018

**FORTE PREPARATORY ACADEMY CHARTER SCHOOL  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
JUNE 30, 2018**

Current Year:

None

Prior Year:

None – This is the School’s first audit.

## Observations and Recommendations

To Management of  
Forte Preparatory Academy Charter School

As a result of the audit for the period from inception through June 30, 2018, we want to provide you with a recommendation to help strengthen internal controls:

### Debit Card Usage

During our audit, we noted that there were purchases that were made using the debit card. These purchases are instantly transferred out of the School's bank account and the person charging the expense is essentially simultaneously authorizing the payments at the same time they are disbursed. We recommend that credit cards be used rather than debit cards as it restricts the timing of the disbursement until after it has had a chance to be reviewed by another within the organization.

If management decides to continue using debit cards, we recommend linking the debit cards to a separate checking account instead of the School's main account. This would enable the accounting team to control the funds available for debit card purchases at any given time.

This report is intended solely for the information and use of the audit and finance committee, the board of directors and management and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.



Schall & Ashenfarb  
Certified Public Accountants, LLC

October 15, 2018

## **Communication with Those Charged with Governance**

To the Board of Trustees of  
Forte Preparatory Academy Charter School

We have audited the financial statements of Forte Preparatory Academy Charter School (“the School”) for the period from inception through June 30, 2018, and have issued our report thereon dated October 15, 2018. Professional standards require that we provide you with the following information related to our audit.

### Our Responsibility under Generally Accepted Auditing Standards

As stated in our engagement letter dated June 12, 2017, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with generally accepted accounting principles. Because of the concept of reasonable assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, fraud, or other illegal acts may exist and not be detected by us. Our audit of the financial statements does not relieve you or management of your responsibilities.

### Planned Scope of Audit

We performed our audit according to the plan previously communicated to you in our engagement letter and subsequent conversations during the planning phase.

### Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used are described in Note 2 to the financial statements. No new accounting policies were adopted during the year under audit and the application of existing policies was not changed during the year.

We noted no transactions entered into by School during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

### Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management’s knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of

their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

The most sensitive estimates used in preparing the financial statements were as follows:

- Estimate for collectability of receivables
- Fixed asset depreciation methods and useful lives
- The allocation of expenses into program, management and fundraising categories

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

#### Significant Audit Adjustments

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. For purposes of this letter, professional standards define a significant audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. There were no adjustments of this kind.

Management agreed with all proposed adjustments. These adjustments have been included as part of the audited financial statements presented. There are no known adjustments that have not been recorded.

#### Disagreements with Management

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

#### Consultations with Other Independent Accountants

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

#### Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management prior to retention as the auditors. There were no specific matters of this nature discussed prior to our retention.

#### Difficulties Encountered in Performing the Audit

There were no significant difficulties encountered in performing the audit.

## Management Representations

We have requested certain representations from management that are included in the management representation letter.

## **Industry Updates**

We would like to update you on several newly issued standards and provide an overview of other matters that impact the nonprofit sector. To summarize:

### **Accounting Updates**

#### FASB New Accounting Standard – Accounting Standards Update No. 2018-08

On June 21, 2018, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The ASU provides guidance on whether a receipt from a third party resource provider falls under the contributions standard or whether it is an exchange transaction.

When a resource provider does not receive commensurate value, they are required to follow the contribution guidance. This standard, for the first time, provides information about how to make this evaluation. The ASU also provides a framework for determining whether a contribution is conditional or unconditional and for distinguishing a donor-imposed condition from a donor-imposed restriction. This is important because it impacts when revenue will be recognized.

Specifically, the ASU explains how a not-for-profit entity determines whether a resource provider is participating in an exchange transaction. Basically, the not-for-profit should evaluate whether the resource provider is receiving value in return for the resources transferred based on the following criteria:

- A resource provider (including a private foundation, a government agency, or other) is not synonymous with the general public. The indirect benefit received by the public as a result of the assets transferred is not equivalent to commensurate value received by the resource provider.
- Execution of a resource provider’s mission or the positive sentiment from acting as a donor would not constitute commensurate value received by a resource provider for purposes of determining whether a transfer of assets is a contribution or an exchange.

This evaluation will have the biggest impact on government grants for those entities that have such transactions. Under this new guidance, most government grants will likely be evaluated as a contribution rather than an exchange transaction. However, the revenue recognition may not change in many cases as the contribution is likely to be considered conditional, which has the same recognition principles as does an exchange transaction.

The factors to determine whether a contribution is conditional is based on whether the agreement includes a barrier that must be overcome **and** either a right of return of assets transferred or a right of release of a promisor’s obligation to transfer assets. A probability assessment about whether the recipient is likely to meet a stipulation is not a factor when determining whether the agreement contains a barrier. In addition, a contribution containing stipulations that are not clearly unconditional shall be presumed to be conditional.

The ASU modifies the simultaneous release option, currently in GAAP, which allows a not-for-profit organization to recognize a restricted contribution directly in net assets without donor restrictions if the restriction is met in the same period that the revenue is recognized. This option may now be elected for all restricted contributions that were initially classified as conditional without having to elect it for all other restricted contributions and investment returns.

A not-for-profit entity that has not issued, or is not a conduit bond obligor for, securities that are traded, listed, or quoted on an exchange or an over-the-counter market would apply the new standard to annual reporting periods beginning after December 15, 2018 (a calendar year organization will apply for their December 31, 2019 financial statements and a fiscal year entity will apply during their fiscal year that ends in 2020).

Early adoption is permitted.

The ASU should be applied on a modified prospective basis where there is no cumulative effect adjustment to opening net assets and no restatement of prior period results.

Retrospective application is also permitted.

#### FASB New Accounting Standard – Accounting Standards Update No. 2016-14

On August 18, 2016, the FASB issued an ASU No. 2016-08, *Presentation of Financial Statements of Not-for-Profit Entities* that attempts to improve existing standards for financial statement presentation by not-for-profit organizations.

The new ASU impacts substantially all not-for-profits as well as donors, grantor, creditors, and others that use their financial statements. That includes charities, foundations, private colleges and universities, nongovernmental health care providers, cultural institutions, religious organizations, and trade associations, among others. The major changes to financial reporting of not-for-profit organizations can be summarized as follows:

- The streamlining of net assets classes to two: net assets that contain donor restrictions and net assets that do not contain donor restrictions. This will have a major impact on organizations with endowments as the financial statements will no longer have a permanently restricted class of net assets. There will also be a change to how underwater endowments will be reported, including enhanced disclosures.
- The new regulations retain current requirements to provide information about the nature and amounts of different types of donor-imposed restrictions, highlighting how those restrictions affect the use of resources, including liquidity.
- Removing the "placed in service" option for releasing donor restrictions on capital projects.
- Requiring enhanced disclosures about how an organization defines their measure of operations if used on their statement of activities. (See below for additional matters on this topic that will be in the second work stream.)
- The new standards include some specific requirements directed at improving a financial statement user's ability to assess a not-for-profit's available financial resources and its management of liquidity and liquidity risk. Specifically, qualitative information that

communicates how a not-for-profit manages its liquid available resources to meet cash needs for general expenditures within one year of the balance sheet date will be required. In addition, quantitative information that communicates the availability of a not-for-profit's financial assets at the balance sheet date to meet cash needs for general expenditures within one year of the balance sheet date will be required. Factors to be considered will include external limits imposed by donors, grantors, laws and contracts with others as well as internal limits imposed by governing board decisions.

- All not-for-profits are now required to provide expenses by nature and function. This could be on the face of the statement of activities, as a separate statement or in the notes.
- Allowing the direct method of reporting on the statement of cash flows but not making it a mandatory requirement. The reconciliation of change in net assets to change in cash flows for the period will be eliminated if the direct method of reporting is elected to encourage entities to consider changing to the direct method.

**We have been discussing the changes and the implementation of the standard with the management and the board members during our pre-audit and post audit meetings. For more information on the implementation guidance, please review *Navigating the New NFP Reporting Standard* article that was recently emailed to you and can be found on our website at [www.schallandashenfarb.com](http://www.schallandashenfarb.com).**

Due to pushback by major stakeholders, FASB has decided to create a second project to include some of the more controversial matters of the original exposure draft. Some of those matters could be summarized as follows:

- How to use, and whether to require nonprofits to use operating measures in the statement of activities. The conversation will include how to define an operating measure and finding ways to make financial statements more comparable between different entities.
- Cash flow statements – revisiting whether the direct method will be required.

We will keep you notified of the progress of this project.

#### FASB New Accounting Standard – Accounting Standards Update No. 2016-02

On February 25, 2016, the FASB issued an ASU No. 2016-02, *Leases*. Under this standard, all leases, including operating leases, with terms of more than twelve months will be required to be reflected as assets and liabilities on the statement of financial position. The asset will be for the rights to use the property, equipment or space and the liability will be for the total obligations created by that lease.

For most not-for-profit entities, this ASU will be effective for periods beginning after December 15, 2019, which for practical purposes will be years ending December 31, 2020 and fiscal year entities that end in 2021. During the time before implementation is required, it is important for you to determine how this change will impact your organization. Important financial ratios and measures will change, and that is especially relevant to organizations that have loans with debt covenants.

### FASB New Accounting Standard – Accounting Standards Update No. 2014-09

In May 2014, FASB issued an ASU No. 2014-09, *Revenue from Contracts with Customers*. This eliminates the majority of industry specific regulations and focuses more on a principles-based model. This standard applies to exchange transactions that many nonprofits currently have such as tuition, membership dues, licenses and royalties. This standard clearly excludes contributions.

The five-step revenue model highlights the identification of performance obligations of the contract, determining the price and allocating that price to the performance obligation so that revenue is recognized as each performance obligation is satisfied. For nonprofit organizations that do not have public debt, this standard is applicable for calendar 2019 entities or those with a fiscal year that ends during 2020.

### **IRS Updates**

#### Tax Cuts and Jobs Act – Tax Reform Bill

On December 22, 2017, President Trump signed into law H.R. 1, known as the Tax Cuts and Jobs Act, commonly referred to as the Tax Reform Bill. The bill has many aspects which impact non-profit organizations:

- Fringe benefit expenses: non-profit organizations are now potentially subject to a new unrelated business income tax of 21% if they offer certain qualified transportation fringe benefits such as parking and public transit benefits, effective January 1, 2018. This currently may apply to both employers who pay for these benefits or are withholding the cost of these benefits from the employee's salary (with the employee receiving the benefits on a pre-tax basis). Thus, qualified transportation fringe benefits, such as TransitCheck (which is required by NYC Law to be offered by employers with 20 or more full-time, non-union employees), could subject non-profit organizations to the new tax. Such organizations would then be required to file a 990-T, *Exempt Organization Business Income Tax Return*.

In June 2018, the New York State Assembly and Senate passed a bill that decouples the state tax code from the federal tax code in regard to this area. Thus, organizations that are required to pay the federal tax would not be subject to the state's 9% tax.

Additionally, in June 2018, a bill was introduced in the U.S. House of Representatives which would completely repeal the unrelated business income tax on these fringe benefits.

- Excise taxes on executive compensation: the bill puts in to place a 21% excise tax on executive compensation paid by a non-profit organization in excess of \$1,000,000.
- Unrelated business income tax: the bill requires organizations that have more than one unrelated trade or business to compute their unrelated business taxable income for each individual trade or business. Thus, losses from one business may no longer be used to offset income from another line of business.

Furthermore, the bill made two changes to individual taxpayer filings that stand to have an impact on charitable giving. First, the bill increases the adjusted gross income limitation on cash contributions from 50% to 60%. Second, the bill doubles the standard deduction, beginning in 2018 through 2025, which will have the impact of reducing the number of taxpayers who itemize their

deductions and thus reducing the number of taxpayers for whom the charitable deduction will be utilized.

Lastly, of note there are some items that were included in previous versions of the bill that ultimately did not get included in the final bill:

- The “Johnson Amendment”: the bill ultimately did not modify or repeal the prohibition of 501(c)3 organizations from participating in political campaigns.
- Royalties income: the final bill did not include a provision to impose unrelated business income taxes on royalties received from licensing an organization’s name or logo.
- Private foundations: ultimately, the bill did not revise the current excise tax structure on net investment income.

#### IRS Online Tools

In May 2018, the IRS introduced a new online tool designed to provide faster, easier access to publicly available information about exempt organizations. The new Tax Exempt Organizations Search (“TEOS”) provides an update to EO Select Check. Among the enhancements, the new TEOS tool includes images of newly-filed Form 990’s and is mobile-device friendly.

#### IRS Issues Revenue Procedure 2018-32

In May 2018, the IRS issued Revenue Procedure 2018-32 in order to provide more easily accessible guidance to grantors and contributors to tax-exempt organizations on deductibility and reliance issues. The procedure sets forth the extent to which grantors and contributors may rely on the listing of an organization in the IRS’s databases of organizations eligible to receive tax-deductible contributions.

#### Tax Exempt and Government Entities Work Plan – FY 2018

On September 28, 2017, the IRS’s Tax Exempt and Government Entities (“TE/GE”) Division issued its fiscal year 2018 work plan.

As noted in the work plan, the Exempt Organizations (“EO”) division of the IRS expects to receive an increased number of determination applications in FY 2018 and as a result EO plans to implement revisions to Form 1023-EZ, including a required activity description and additional questions on gross receipts, asset thresholds and foundation classification. This may result in the average processing time for the 1023-EZ to increase.

Also discussed in the work plan is EO’s desire to continue to produce “Knowledge Management” products. This would result in the production of issue snapshots and audit tools on topics including gaming, unrelated business income, organizational test requirements and employment tax.

On the compliance side, the work plan mentions the IRS’s intention to focus on examining supporting organizations that file form 990-N, entities that operated as for-profit entities prior to obtaining 501(c)3 status, and organizations with indicators of private benefit or inurement.

Finally, the IRS stated it will continue to use a data-driven approach to determine which organizations it selects for examinations. The work plan outlines that the IRS aims to improve its 990, 990-EZ and 990-PF compliance models.

## **Government Auditing Updates**

### OMB Procurement Update

As a reminder, procurement rules from Uniform Guidance became effective January 1, 2017 and no further extensions will be permitted.

**For more information on this, please view an archived version of a webinar that we did on this topic at [www.schallandashenfarb.com](http://www.schallandashenfarb.com).**

### OMB issues memorandum M-18-18

On June 20, 2018, OMB issued memorandum M-18-18 titled, Implementing Statutory Changes to the Micro-Purchase and Simplified Acquisition Thresholds for Financial Assistance. The memorandum states that increases to the micro-purchase threshold will be \$10,000 and the simplified acquisition threshold will be \$250,000 effective upon issuance of this memo.

### New Yellow Book Issued

In July 2018, the Government Accountability Office released the 2018 revision of *Government Auditing Standards* (often referred to as The Yellow Book or GAGAS). The areas with significant changes from the previous (2011) edition of The Yellow Book include:

- A new format and organization
- Independence
- CPE
- Peer review
- Internal control
- Waste and abuse
- Reviews of financial statements

The most significant changes in this edition of the Yellow Book have to do with nonaudit independence requirements.

The 2018 revision supersedes the 2011 Yellow Book, the 2005 *Government Auditing Standards: Guidance on GAGAS Requirements for Continuing Professional Education* and the 2014 *Government Auditing Standards: Guidance for Understanding the New Peer Review Ratings*.

The 2018 Yellow Book is effective for financial audits, attestation engagements and reviews of financial statements for periods ending on or after June 30, 2020. It is effective for performance audits beginning on or after July 1, 2019. Early implementation is not permitted.

### Proposed Changes to Data Collection Form

The Federal Audit Clearinghouse (FAC) has issued proposed revisions to the data collection form (DCF) in a recent Federal Register notice. This proposal will not impact 2018 single audits but if the revisions are enacted, would impact single audits for 2019, 2020 and 2021. The following is a summary of those changes:

- The audit finding information currently required to be included in the form would be expanded to include the actual text of the audit finding

- Auditors would be asked to indicate whether there was communication to the auditee in a written document relating to any issues that were not an audit finding but warranted the attention with those charged with governance
- Auditees would be required to include the text of their corrective action plans
- Auditees would also be required to include the text of the notes to the schedule of expenditures of federal award

In addition, there will be a mechanism for entities to voluntarily self-report that they did not meet the threshold to require a single audit and this information would be posted on the FAC web site.

Independence Issues

Schall & Ashenfarb, CPA's, LLC is not aware of any relationships that our firm, or any employees thereof, has with the School or any of its board trustees that, in our professional judgment may impair our independence.

This information is intended solely for the use of the Board of Trustees and management of Forte Preparatory Academy Charter School and should not be used for any other purpose.



Schall & Ashenfarb  
Certified Public Accountants, LLC

October 15, 2018

## EXHIBIT 1



IRA L. SCHALL, CPA  
DAVID C. ASHENFARB, CPA  
MICHAEL L. SCHALL, CPA

June 12, 2017

Mr. Graham Browne  
Founder & Executive Director  
And Those Charged with Governance  
Forte Preparatory Academy  
32-20 108<sup>th</sup> Street  
East Elmhurst, NY 11369

Dear Mr. Browne:

We are pleased to confirm our understanding of the services we are to provide for Forte Preparatory Academy for the year ended June 30, 2018.

We will audit the financial statements of Forte Preparatory Academy, which comprise the statement of financial position as of June 30, 2018, and the related statements of activities, functional expenses (if applicable), and cash flows for the year then ended, and the related notes to the financial statements.

### **Audit Objectives**

The objective of our audit is the expression of an opinion about whether your financial statements are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit will be conducted in accordance with generally accepted auditing standards in the United States of America and the standards for financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and will include tests of your accounting records and other procedures we consider necessary to enable us to express such an opinion. We will issue a written report upon completion of our audit of Forte Preparatory Academy's financial statements. If our opinion is other than unmodified, we will discuss the reasons with management in advance. If, for any reason, we are unable to complete the audit or are unable to form or have not formed an opinion, we may decline to express an opinion or issue reports, or we may withdraw from this engagement.

We will also provide a report (which does not include an opinion) on internal control related to the financial statements and compliance with the provisions of laws, regulations, contracts, and grants agreements, noncompliance with which could have a material effect on the financial statements as required by *Government Auditing Standards*. The report on internal control and on compliance and other matters will include a paragraph that states that (1) the purpose of the report is solely to describe the scope of 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 on compliance and (2)

## EXHIBIT 1

the report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. The paragraph will also state that the report is not suitable for any other purpose. If during our audit we become aware that Forte Preparatory Academy is subject to an audit requirement that is not encompassed in the terms of this engagement, we will communicate to management and those charged with governance that an audit in accordance with generally accepted auditing standards established by the auditing standards board (United States) and the standards for financial audits contained in *Government Auditing Standards* may not satisfy the relevant legal, regulatory, or contractual requirements.

### **Audit Procedures—General**

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit will involve judgment about the number of transactions to be examined and the areas to be tested. An audit also includes evaluating the appropriateness of accounting policies used and the presentation of the financial statements. We will plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether from (1) errors, (2) fraudulent financial reporting, (3) misappropriation of assets, or (4) violations of laws or governmental regulations that are attributable to the Organization or to acts by management or employees acting on behalf of the Organization. Because the determination of abuse is subjective, *Government Auditing Standards* do not expect auditors to provide reasonable assurance of detecting abuse.

Because of the inherent limitations of an audit, combined with the inherent limitations of internal control, and because **we will not perform a detailed examination of all transactions**, there is a risk that material misstatements may exist and not be detected by us, even though the audit is properly planned and performed in accordance with U.S. generally accepted auditing standards and *Government Auditing Standards*. In addition, an audit is not designed to detect immaterial misstatements or violations of laws or governmental regulations that do not have a direct and material effect on the financial statements. However, we will inform the appropriate level of management of any material errors, fraudulent financial reporting, or misappropriation of assets that come to our attention. We will also inform the appropriate level of management of any violations of laws or governmental regulations that come to our attention, unless clearly inconsequential, and of any material abuse that comes to our attention. Our responsibility as auditors' is limited to the period covered by our audit and does not extend to any later periods for which we are not engaged as auditors.

Our procedures will include tests of documentary evidence supporting the transactions recorded in the accounts, tests of the physical existence of inventories, and direct confirmation of receivables and certain assets and liabilities by correspondence with selected individuals, funding sources, creditors, and financial institutions. We will also request written representations from the Organization's attorneys as part of the engagement, and they may bill the Organization for responding to this inquiry. At the conclusion of our audit, we will require certain written representations from management about the responsibilities of the financial statements; compliance with laws, regulations, contracts, and grant agreements; and other responsibilities required by generally accepted auditing standards.

### **Audit Procedures—Internal Control**

Our audit will include obtaining an understanding of the Organization and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial

## EXHIBIT 1

statements and to design the nature, timing, and extent of further audit procedures. Tests of controls may be performed to test the effectiveness of certain controls that we consider relevant to preventing and detecting errors and fraud that are material to the financial statements and to preventing and detecting misstatements resulting from illegal acts and other noncompliance matters that have a direct and material effect on the financial statements. Our tests, if performed, will be less in scope than would be necessary to render an opinion on internal control and, accordingly, no opinion will be expressed in our report on internal control issued pursuant to *Government Auditing Standards*.

An audit is not designed to provide assurance on internal control or to identify significant deficiencies or material weaknesses. However, during the audit, we will communicate to management and those charged with governance internal control related matters that are required to be communicated under AICPA professional standards and *Government Auditing Standards*.

### **Audit Procedures—Compliance**

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we will perform tests of Forte Preparatory Academy's compliance with the provisions of applicable laws, regulations, contracts, agreements, and grants. However, the objective of our audit will not be to provide an opinion on overall compliance and we will not express such an opinion in our report on compliance issued pursuant to *Government Auditing Standards*.

### **Other Services**

We are always available to meet with you and other executives at various times throughout the year to discuss current business, operational, accounting, and auditing matters affecting your Organization. Whenever you feel such meetings are desirable, please let us know. We are also prepared to provide services to assist you in any of these areas. We will also be pleased, at your request, to attend your board of directors' meetings.

We will prepare the Organization's federal and state information returns for the year ended June 30, 2018 based on information provided by you. We will also assist in preparing the financial statements and related notes of the Organization in conformity with U.S. generally accepted accounting principles based on information provided by you. These nonaudit services do not constitute an audit under *Government Auditing Standards* and such services will not be conducted in accordance with *Government Auditing Standards*.

We will perform the services in accordance with applicable professional standards, including the Statements on Standards for Tax Services issued by the American Institute of Certified Public Accountants. The other services are limited to the financial statement and tax services previously defined. We, in our sole professional judgment, reserve the right to refuse to perform any procedure or take any action that could be construed as assuming management responsibilities. We will advise management with regard to tax positions taken in the preparation of the tax return, but management must make all decisions with regard to those matters.

### **Management Responsibilities**

**Management is responsible** for (1) establishing and maintaining internal controls, including monitoring ongoing activities and for helping to ensure that appropriate goals and objectives are

## EXHIBIT 1

met; (2) following laws and regulations; and (3) ensuring that management is reliable and financial information is reliable and properly reported. Management is also responsible for implementing systems designed to achieve compliance with applicable laws, regulations, contract, and grant agreements. **Management is responsible** for the selection and application of accounting principles; for the preparation and fair presentation of the financial statements and all accompanying information in conformity with U.S. Generally accepted accounting principles, and for compliance with applicable laws and regulations and the provisions of contracts and grant agreements. **A partner will present the results of our audit to your audit committee or your board of directors (in person or by teleconference).**

**Management is also responsible** for making all financial records and related information available to us and for the accuracy and completeness of that information. **Management is also responsible** for providing us with (1) access to all information of which you are aware that is relevant to the preparation and fair presentation of the financial statements, (2) additional information that we may request for the purpose of the audit, and (3) unrestricted access to persons within the organization from whom we determine it necessary to obtain audit evidence.

**Management's responsibilities include** adjusting the financial statements to correct material misstatements and for confirming to us in the representation letter that the effects of any uncorrected misstatements aggregated by us during the current engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

**You are responsible** for the design and implementation of programs and controls to prevent and detect fraud, and for informing us about all known or suspected fraud affecting the organization involving (1) management, (2) employees who have significant roles in internal control, and (3) others where the fraud could have a material effect on the financial statements. **Your responsibilities include** informing us of your knowledge of any allegations of fraud or suspected fraud affecting the Organization received in communications from employees, former employees, grantors, regulators, or others. In addition, **you are responsible** for identifying and ensuring that the Organization complies with applicable laws, regulations, contracts, agreements, and grants and for taking timely and appropriate steps to remedy fraud, noncompliance with provisions of laws, regulations, contracts or grant agreements, or abuse that we report.

**Management is responsible** for establishing and maintaining a process for tracking the status of audit findings and recommendations. **Management is also responsible** for identifying and providing report copies of previous financial audits, attestation engagements, performance audits, or other studies related to the objectives discussed in the Audit Objectives section of this letter. This responsibility includes relaying to us corrective actions taken to address significant findings and recommendations resulting from those audits, attestation engagements, performance audits, or other engagements or studies. **The Organization is also responsible for providing** management's views on our current findings, conclusions, and recommendations, as well as your planned corrective actions for the report, and for the timing and format for providing that information.

You agree to assume all management responsibilities relating to the tax services, financial statements, related notes, and any other nonaudit services we provide. You will be required to acknowledge in the management representation letter the tax services provided and our assistance with the preparation of the financial statements and related notes and that you have evaluated the adequacy of our services and have reviewed and approved the results of the services, the financial statements, and related notes prior to their issuance and have accepted responsibility for them.

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Further, you agree to assume all management responsibilities for the tax services, financial statement preparation services, and any other nonattest services we provide; you agree to oversee the nonaudit services by designating an individual, preferably from senior management, with suitable skill, knowledge, or experience; evaluate the adequacy and results of the services; and accept responsibility for them.

If you use a financial consultant to review your books, prepare journal entries or prepare financial statements we will request certain representation from them as well. **Because of the importance of management's representations to an effective audit, failure of management or their financial consultants to provide representations to us in the form of a representation letter will cause our auditors opinion to be a "disclaimer" for a scope limitation.**

### **Engagement Administration and Other**

We understand that your employees will prepare all cash, accounts receivable, and other confirmations we request and will locate any documents selected by us for testing. Certain financial institutions may charge us for this and the cost will be passed on to you. We will send a template in Word format for use with confirmation requests.

We will provide copies of our reports to the Organization; however, management is responsible for distribution of the reports and the financial statements. Unless restricted by law or regulation, or containing privileged and confidential information, copies of our reports are to be made available for public inspection.

The audit documentation for this engagement is the property of Schall & Ashenfarb, CPAs, LLC and constitutes confidential information. However, subject to applicable laws and regulations, audit documentation and appropriate individuals will be made available upon request and in a timely manner to the Government Regulator or its designee, a federal agency providing direct or indirect funding, or the U.S. Government accountability Office for purposes of a quality review of the audit, to resolve audit findings, or to carry out oversight responsibilities. pursuant to authority given by law or regulation, we may be requested to make certain audit documentation available to your funding source or its designee, a federal agency providing direct or indirect funding, or the U.S. Government Accountability Office for purposes of a quality review of the audit, to resolve audit findings, or to carry out oversight responsibilities. We will notify you of any such request. If requested, access to such audit documentation will be provided under the supervision of Schall & Ashenfarb's personnel. Furthermore, upon request, we may provide copies of selected audit documentation to the aforementioned parties. These parties may intend, or decide, to distribute the copies or information contained therein to others, including other governmental agencies.

The audit documentation for this engagement will be retained for a minimum of five years after the report release date or for any additional period requested by the Government Regulator. If we are aware that a federal awarding agency or auditee is contesting an audit finding, we will contact the party(ies) contesting the audit finding for guidance prior to destroying the audit documentation.

David Ashenfarb is the engagement partner and is responsible for supervising the engagement and signing the reports or authorizing another individual to sign it. Please contact us to discuss a date that we can begin the audit and outline a plan for delivery of draft and final documents to you. Our audit engagement ends on delivery of financial reports; however, we are still available for routine conversations without charge until either party has officially terminated the relationship. Any follow-up services that might be required will be considered a new engagement.

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### **E-mail Communication**

In connection with this engagement, we may communicate with you or others via e-mail. As e-mails can be intercepted, disclosed, used, and/or otherwise communicated by an unintended third party, or may not be delivered to each of the parties to whom they are directed, we cannot ensure that e-mails from us will be properly delivered and read only by the addressee. Therefore, we disclaim and waive any liability for interception or unintentional disclosure of e-mail transmissions, or for the unauthorized use or failed delivery of e-mails transmitted by us in connection with the performance of this engagement. In that regard, you agree that we shall have no liability for any loss or damage arising from the use of e-mail, including any punitive, consequential, incidental, direct, indirect, or special damages, such as loss of revenues or anticipated profits, or disclosure of confidential information.

### **Posting of Audit Report and Financial Statements on Your Web Site**

You agree that, if you plan to post an electronic version of the financial statements and audit report on your Web site, you will ensure that there are no differences in content between the electronic version of the financial statements and audit report on your Web site and the signed version of the financial statements and audit reports provided to management by us. You also agree to indemnify us from any and all claims that may arise from any differences between the electronic and signed copies.

### **Taxes**

As part of our engagement, we will also prepare the federal and state information returns (Form 990 and CHAR 500). In order to prepare complete and accurate returns, we will require you to provide certain information about board governance policies, which may also include, but not be limited to, providing salary amounts for employees greater than \$100,000, contractors for professional services in excess of the same amount, names, addresses and dollar amounts of large contributors in excess of certain calculated amounts and other matters that are not generally covered during the audit. If the information is not provided to us timely, you will not hold us responsible for any penalties incurred for incomplete information.

We will send you an authorization form so that we can file your federal taxes electronically. If we do not receive the form back, or you prefer not to file electronically, we will send you hard copies to file. At this time, New York State has a cumbersome process for electronic filings; therefore, we will send you an electronic copy for you to print out to file with New York State. We will also send you electronic copies only for your records unless we receive a specific request for hard copies.

### **Fee**

Our fee will be \$13,000. At the completion of the audit, we will provide electronic versions of the audited financial statements, management letter (if applicable) and communications with those charged with governance and 10 copies of the final report without charge. Any additional copies will cost \$5 per report. The fee estimate is based on anticipated cooperation from your personnel and the assumption that unexpected circumstances will not be encountered during the audit. If significant additional time is necessary, we will discuss it with you and arrive at a new fee estimate before we incur the additional costs. If applicable, we will charge you other out of pocket costs such as postage for confirmations, fees incurred for certain electronic bank confirmations and setting up

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conference calls through our phone center, etc. Our fee will be billed monthly and is payable upon receipt. Invoices that are unpaid 30 days past the invoice date are deemed delinquent and we reserve the right to charge interest at 1% per month (not to exceed the maximum amount permitted by law.) In the event any collection action is required to collect unpaid balances due to us, you agree to reimburse us for all our costs of collection, including without limitation attorney's fees.

A payment is required upon the signing of this letter in the amount of \$3,000. If we terminate our services for nonpayment, our engagement will be deemed to have been completed upon written notification of termination, even if we have not completed our report. You will be obligated to compensate us for all time expended and to reimburse us for all out-of-pocket expenditures through the date of termination.

If the School receives CSP funding, the grantor may require a separate "agreed upon procedures report". The terms of this engagement do not include additional services required to prepare a separate agreed upon procedures report. If such services are required, a separate agreement outlining the scope of work and related fees will be made at that time.

### **Independence**

Professional and certain regulatory standards require us to be independent, in both fact and appearance, with respect to your Organization in the performance of our services. Any discussions that you have with personnel of our Firm regarding employment could pose a threat to our independence. Therefore, we request that you inform us prior to any such discussions so that we can implement appropriate safeguards to maintain our independence.

In order for us to remain independent, professional standards require us to maintain certain respective roles and relationships with you with respect to the non-attest services described above. Prior to performing such services in conjunction with our audit, management must acknowledge its acceptance of certain responsibilities.

We will not perform management functions or make management decisions on behalf of your Organization. However, we will provide advice and recommendations to assist management of the Organization in performing its functions and fulfilling its responsibilities.

We, in our professional judgment, reserve the right to refuse to perform any procedure or take any action that could be construed as making management decisions or performing management functions. The Organization must make all decisions with regard to our recommendations. By signing this Agreement, you acknowledge your acceptance of these responsibilities.

*Government Auditing Standards* require that we provide you with a copy of our most recent external peer review report and any letter of comment, and any subsequent peer review reports and letters of comment received during the period of the contract. Our 2014 peer review report accompanies this letter.

We have attached a brief questionnaire that will help us plan the timing of the engagement to ensure you receive documents in your desired time frame. Please take a moment to fill that out.

We appreciate the opportunity to be of service to Forte Preparatory Academy and believe this letter accurately summarizes the significant terms of our engagement. If you have any questions, please

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let us know. If you agree with the terms of our engagement as described in this letter, please sign the enclosed copy and return it to us along with the questionnaire referred to above.

Very truly yours,

*Schall & Ashenfarb*

Schall & Ashenfarb  
Certified Public Accountants, LLC

RESPONSE:

This letter correctly sets forth the understanding of Forte Preparatory Academy for the year ended June 30, 2017.



Authorized signature

*Treasurer of the Board*

Title

*6/18/17*

Date

# Lilling & Company LLP

Certified Public Accountants

## **Report on the Firm's System of Quality Control**

April 20, 2017

To the Partners of Schall & Ashenfarb CPAs, LLC and the Peer Review Committee of the New York State Society of CPA's

We have reviewed the system of quality control for the accounting and auditing practice of Schall & Ashenfarb CPAs, LLC (the firm) in effect for the year ended August 31, 2016. Our peer review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants (Standards).

A summary of the nature, objectives, scope, limitations of, and the procedures performed in a System Review as described in the Standards may be found at [www.aicpa.org/prsummary](http://www.aicpa.org/prsummary). The summary also includes an explanation of how engagements identified as not performed or reported in conformity with applicable professional standards, if any, are evaluated by a peer reviewer to determine a peer review rating.

### **Firm's Responsibility**

The firm is responsible for designing a system of quality control and complying with it to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. The firm is also responsible for evaluating actions to promptly remediate engagements deemed as not performed or reported in conformity with professional standards, when appropriate, and for remediating weaknesses in its system of quality control, if any.

### **Peer Reviewer's Responsibility**

Our responsibility is to express an opinion on the design of the system of quality control and the firm's compliance therewith based on our review.

### **Required Selections and Considerations**

Engagements selected for review included engagements performed under *Government Auditing Standards*, including a compliance audit under the Single Audit Act.

As a part of our peer review, we considered reviews by regulatory entities as communicated by the firm, if applicable, in determining the nature and extent of our procedures.

## EXHIBIT 1

### Opinion

In our opinion, the system of quality control for the accounting and auditing practice of Schall & Ashenfarb CPAs, LLC in effect for the year ended August 31, 2016, has been suitably designed and complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Firms can receive a rating of *pass*, *pass with deficiency(ies)* or *fail*. Schall & Ashenfarb CPAs, LLC has received a peer review rating of *pass*.



LILLING & COMPANY LLP

October 15, 2018

Schall & Ashenfarb, CPA's, LLC  
307 Fifth Avenue, 15<sup>th</sup> Floor  
New York, NY 10016

This representation letter is provided in connection with your audit of the financial statements of the Forte Preparatory Academy Charter School, which comprise the statements of financial position as of June 30, 2018, and the related statements of activities, functional expenses, and cash flows for the period from inception through June 30, 2018, and the related notes to the financial statements, for the purpose of expressing an opinion as to whether the financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States (U.S. GAAP).

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement. An omission or misstatement that is monetarily small in amount could be considered material as a result of qualitative factors.

We confirm, to the best of our knowledge and belief, as of October 15, 2018, the following representations made to you during your audit.

### **Financial Statements**

1. We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated June 12, 2017, including our responsibility for the preparation and fair presentation of the financial statements, in accordance with US GAAP.
2. The financial statements referred to above are fairly presented in conformity with U.S. GAAP.
3. We acknowledge our responsibility for 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.
4. We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
5. Significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable. This specifically includes the methodology for the statement of functional expenses.
6. There have been no related party relationships or transactions that are required to be accounted for or disclosed in accordance with the requirements of U.S. GAAP.
7. There are no events subsequent to the date of the financial statements which requires adjustment to or disclosure in the financial statements to be in accordance with the requirements of U.S. GAAP.



8. were no uncorrected misstatements that are material, both individually and in the aggregate, to the financial statements as a whole.
9. There were no known actual or possible litigation, claims, and assessments required to be accounted for and disclosed in accordance with U.S. GAAP.
10. Material concentrations, if applicable, have been appropriately disclosed in accordance with U.S. GAAP.
11. There were no guarantees, either written or oral, under which the organization is contingently liable, that are required to be recorded or disclosed in accordance with U.S. GAAP.

### Non Attest Services

In regard to the non-attest services provided by you, we have:

1. Assumed all management responsibilities.
2. Designated an individual with suitable skill, knowledge, or experience to oversee the services.
3. Evaluated the adequacy and results of the services performed.
4. Accepted responsibility for the results of the services.

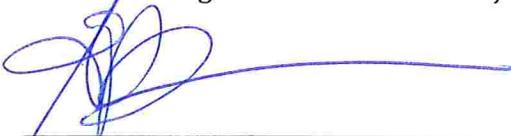
As part of your audit, you prepared the draft financial statements and related notes. We have designated an individual with suitable skill, knowledge, or experience to oversee your services and have assumed all management responsibilities. We have reviewed, approved, and accepted responsibility for those financial statements and related notes.

### Information Provided

1. We have provided you with:
  - a) Access to all information, of which we are aware, that is relevant to the preparation and fair presentation of the financial statements, such as records, documentation, and other matters.
  - b) Additional information that you have requested from us for the purpose of the audit.
  - c) Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
  - d) Minutes of the meetings of the governing board or summaries of actions of recent meetings for which minutes have not yet been prepared.
2. All material transactions have been recorded in the accounting records and are reflected in the financial statements.
3. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
4. We have no knowledge of any fraud or suspected fraud that affects the organization and involves:
  - a) Management,
  - b) Employees who have significant roles in internal control, or
  - c) Others where the fraud could have a material effect on the financial statements.



5. We have no knowledge of any allegations of fraud or suspected fraud affecting the organization's financial statements communicated by employees, former employees, grantors, regulators, or others.
6. We have no knowledge of any instances of noncompliance or suspected noncompliance with laws and regulations whose effects should be considered when preparing financial statements.
7. We are not aware of any pending or threatening litigation, claims, or assessments or unasserted claims or assessments that are required to be accrued or disclosed in the financial statements in accordance with U.S. GAAP.
8. We have disclosed to you the identity of the organization's related parties and all the related party relationships and transactions of which we are aware.
9. The organization has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.
10. We are responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to us; and we have identified and disclosed to you all laws, regulations and provisions of contracts and grant agreements that we believe have a direct and material effect on the determination of financial statement amounts or other financial data significant to the audit objectives.
11. Forte Preparatory Academy Charter School is an exempt organization under Section 501(c)(3) of the Internal Revenue Code. Any activities of which we are aware that would jeopardize the Organization's tax-exempt status, and all activities subject to tax on unrelated business income or excise or other tax, have been disclosed to you and appropriately reported. All required filings with tax authorities are up-to-date.
12. There have been no instances that have occurred, or are likely to have occurred, of fraud and noncompliance with provisions of laws and regulations that we believe have a material effect on the financial statements or other financial data significant to the audit objectives, and any other instances that warrant the attention of those charged with governance.
13. There have been no instances that have occurred, or are likely to have occurred, of noncompliance with provision of contracts and grant agreements that we believe have a material effect on the determination of financial statement amounts or other financial data significant to the audit objectives.
14. There have been no instances that have occurred, or are likely to have occurred, of abuse that could be quantitatively or qualitatively material to the financial statements or other financial data significant to the audit objectives.



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Graham Browne  
Founder and Executive Director

October 15, 2018

Schall & Ashenfarb, CPA's, LLC  
307 Fifth Avenue, 15<sup>th</sup> Floor  
New York, NY 10016

I am providing this letter in connection with your audit of the statement of financial position of Forte Preparatory Academy Public Charter School (the "School") as of June 30, 2018 and the related statements of activities, functional expenses and cash flows for the period from inception through June 30, 2018 for the purpose of expressing an opinion as to whether the financial statements present fairly, in all material respects, the financial position, changes in net assets, and cash flows of the School in conformity with accounting principles generally accepted in the United States of America. I confirm that I am responsible for the fair presentation in the financial statements of financial position, changes in net assets, and cash flows in conformity with accounting principles generally accepted in the United States of America, as well as adopting sound accounting policies, although as a consultant, I am not responsible for establishing and maintaining internal control, and preventing and detecting fraud.

I confirm, to the best of my knowledge and belief, as of October 15, 2018, the following representations made to you during your audit.

1. The financial statements referred to above are fairly presented in conformity with accounting principles generally accepted in the United States of America.
2. There are no material transactions that I am aware of that has not been properly recorded in the accounting records underlying the financial statements.
3. I am unaware of any adjustments required that are material, both individually and in the aggregate, to the financial statements taken as a whole. There are no un-booked adjustments.
4. I have no knowledge of any fraud or suspected fraud affecting the School involving:
  - a) Management
  - b) Employees who have significant roles in internal control, or
  - c) Others where the fraud could have a material effect on the financial statements.
5. I am unaware of any plans or intentions that management has that may materially affect the carrying value or classification of assets, liabilities, or net asset balances.

6. I am unaware of any of the following matters and have not recorded any of these matters in the financial statements:
- a) Related party transactions, including revenues, expenses, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties.
  - b) Guarantees, whether written or oral, under which the Organization is contingently liable.
  - c) Unasserted claims or assessments.
  - d) Agreements to repurchase assets previously sold.
  - e) Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by Statement of Financial Accounting Standards No. 5.
  - f) Designations of net assets disclosed to you that were not properly authorized and approved, or reclassifications of net assets that have not been properly reflected in the financial statements.
7. There are no estimates that may be subject to a material change in the near term that have not been properly disclosed in the financial statements. I understand that near term means the period within one year of the date of the financial statements. In addition, I have no knowledge of concentrations existing at the date of the financial statements that make the organization vulnerable to the risk of severe impact that have not been properly disclosed in the financial statements.
8. I have identified all accounting estimates that could be material to the financial statements, including the key factors and significant assumption underlying those estimates, and we believe the estimates are reasonable in the circumstances. This includes estimates for the statement of functional expenses, although it was management that made the decisions regarding allocation rates and methods.
9. I have included in the financial statements, all assets and liabilities that I was aware of that is under the control of Brooklyn Emerging Leaders Academy Public Charter School.

I am not aware of any events that have occurred subsequent to the statement of financial position date and through the date of this letter that would require adjustment to, or disclosure in, the financial statements.

*Gasper Magallanes*

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Gasper Magallanes  
Financial Consultant

**INDEPENDENT ACCOUNTANT'S REPORT  
ON APPLYING AGREED UPON PROCEDURES**

To the Board of Trustees of  
Forte Preparatory Academy Charter School

We have performed the procedures enumerated below, which were agreed to by the management of Forte Preparatory Academy Charter School and the New York State Education Department solely to assist the specified parties in evaluating the School's assertion to New York State Education Department that it has maintained compliance with the requirements of the CSP grant and Federal and NYSED guidelines in managing the CSP grant for the period from inception through June 30, 2018. The school's management is responsible for these procedures. The sufficiency of these procedures is solely the responsibility of the parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures enumerated below either for the purpose for which the report has been requested or for any other purpose.

The procedures we performed and our results are as follows:

**Procedure #1:** We obtained the detail of expenditures incurred for the period under review relating to the CSP grant from the Charter School's accounting software and reconciled to the grant revenue recorded by the Charter School.

**Results:** We obtained the detail of expenditures incurred for the period from inception through June 30, 2018 relating to the CSP grant. The expenses from the detail of expenditures reconciled to the CSP grant revenue recorded in the books.

**Procedure #2:** We obtained the NYSED approved CSP grant award information, including the budget and any amendments, to determine if the revenue and expenditures recorded for the period appear reasonable.

**Results:** Based on the NYSED approved CSP grant award information reviewed, the revenue and expenditures recorded for the period appeared reasonable.

**Procedure #3:** We selected a sample of expenditures from the detail obtained in Procedure #1.

- a. Payroll – We selected 10 items or 10% of the total number of payroll items charged to the grant, whichever is less.
- b. Other expenses – We selected 10 items or 10% of the total number of other expense items charged to the grant, whichever is less.
- c. Using the above selected items, we:
  - i. Determined if the expenditure was in accordance with the purpose of the grant and that pre-opening expenditures were charged to pre-opening periods. (See non-regulatory guidance on the CSP grant at <http://www.p12.nysed.gov/psc/grants.html>).
  - ii. Determined if the expenditure fell into an approved budget category.
  - iii. Determine if the expenditure was charged to the appropriate fiscal period.

**Results:** There were 28 payroll items and 155 other expenses related to the CSP grant during the period from inception through June 30, 2018. Therefore, we selected 3 payroll items and 10 other expense items charged to the grant and determined that:

- a. The expenditures were in accordance with the purpose of the grant.
- b. The expenditures fell into approved budget categories.
- c. The expenditures were charged to the appropriate fiscal period.

**Procedure #4:** If applicable, obtain the FS-25 form(s) submitted to NYSED during the period under review and performed the following:

- a. Traced expenditures selected in Procedure #3 to requests for reimbursement. Determined that items requested for reimbursement had previously been expended or were expended within a month following the request for reimbursement.
- b. If FS-25 forms were filed, ensure they included amounts on Line 4 (Cash Expenditures Anticipated During Next Month).

**Result:** Forte Preparatory Academy Charter School did not file any FS-25 forms during the period from inception through June 30, 2018. They received 20% of the budget up front and will receive the remainder after the final submission of the FS-10 form.

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

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

**Result:** Forte Preparatory Academy Charter School did not use a weighted lottery during the period under review.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. We were not engaged to, and did not conduct an examination, or review, the objective of which would be the expression of an opinion or conclusion, on these procedures. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the use of Forte Preparatory Academy Charter School and the New York State Education Department, and it is not intended to be and should not be used by anyone other than the specified parties.



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Schall & Ashenfarb  
Certified Public Accountants, LLC

October 17, 2018