

BROOKLYN CHARTER SCHOOL

Audited Financial Statements

June 30, 2007

BROOKLYN CHARTER SCHOOL

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of
Brooklyn Charter School

We have audited the accompanying statement of financial position of Brooklyn Charter School ("the School") as of June 30, 2007, and the related statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of the School's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the School's June 30, 2006 financial statements and, in our report dated October 26, 2006 we expressed an unqualified opinion on those financial statements.

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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above presents fairly, in all material respects, the financial position of Brooklyn Charter School as of June 30, 2007, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 16, 2007 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.



Schall & Ashenfarb
Certified Public Accountants, LLC

October 16, 2007

BROOKLYN CHARTER SCHOOL
STATEMENT OF FINANCIAL POSITION
AT JUNE 30, 2007
(With comparative totals for June 30, 2006)

	<u>6/30/07</u>	<u>6/30/06</u>
Assets		
Cash and cash equivalents (Note 2c)	\$877,415	\$434,216
Contributions receivable (Note 2f)	50,000	100,000
Federal grants receivable	9,827	0
Accounts receivable - meal fees (net of allowance for doubtful accounts of \$21,729) (Note 2e)	447	1,594
Prepaid expenses	23,026	20,905
Furniture and equipment, net (Notes 2b and 3)	<u>89,142</u>	<u>87,534</u>
Total assets	<u><u>\$1,049,857</u></u>	<u><u>\$644,249</u></u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$269,955	\$244,217
Advance payable - New York City (Note 4)	<u>36,335</u>	<u>93,431</u>
Total liabilities	<u>306,290</u>	<u>337,648</u>
Net Assets: (Note 2a)		
Unrestricted	693,567	206,601
Temporarily restricted	<u>50,000</u>	<u>100,000</u>
Total net assets	<u>743,567</u>	<u>306,601</u>
Total liabilities and net assets	<u><u>\$1,049,857</u></u>	<u><u>\$644,249</u></u>

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

BROOKLYN CHARTER SCHOOL
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2007
(With comparative totals for the year ended June 30, 2006)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total 6/30/07</u>	<u>Total 6/30/06</u>
Public Support and Revenue:				
New York City grants (Note 4)	\$2,376,282		\$2,376,282	\$1,971,037
Federal grants	106,924		106,924	83,542
Contributions	99,818		99,818	228,200
In-kind contributions (Note 2h)	462,000		462,000	420,289
Other income	18,475		18,475	9,790
Net assets released from restrictions	50,000	(\$50,000)	0	0
	<u>3,113,499</u>	<u>(50,000)</u>	<u>3,063,499</u>	<u>2,712,858</u>
Expenses:				
Program services:				
Instructional support	2,103,329	0	2,103,329	1,945,703
	<u>2,103,329</u>	<u>0</u>	<u>2,103,329</u>	<u>1,945,703</u>
Supporting services:				
Management and general	511,553		511,553	379,699
Fundraising	11,651		11,651	9,799
	<u>523,204</u>	<u>0</u>	<u>523,204</u>	<u>389,498</u>
	<u>2,626,533</u>	<u>0</u>	<u>2,626,533</u>	<u>2,335,201</u>
Change in net assets	486,966	(50,000)	436,966	377,657
Net assets - beginning of year	206,601	100,000	306,601	(71,056)
Net assets - end of year	<u>\$693,567</u>	<u>\$50,000</u>	<u>\$743,567</u>	<u>\$306,601</u>

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

BROOKLYN CHARTER SCHOOL
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2007
(With comparative totals for the year ended June 30, 2006)

	Program Services	Supporting Services			Total Expenses 6/30/07	Total Expenses 6/30/06*
	Instructional Support	Management and General	Fundraising	Total		
Salaries	\$1,130,465	\$333,650	\$6,868	\$340,518	\$1,470,983	\$1,330,772
Payroll taxes and employee benefits	282,444	86,438	1,779	88,217	370,661	288,708
Total personnel costs	<u>1,412,909</u>	<u>420,088</u>	<u>8,647</u>	<u>428,735</u>	<u>1,841,644</u>	<u>1,619,480</u>
Occupancy (including in-kind) (Note 2h)	434,280	25,410	2,310	27,720	462,000	422,206
Professional fees	2,770	24,565		24,565	27,335	65,774
Insurance	37,787	7,740		7,740	45,527	27,362
Maintenance and repairs	22,454	1,530		1,530	23,984	10,836
Supplies and materials	87,506	22,707	554	23,261	110,767	98,790
Staff development	43,235			0	43,235	25,317
Depreciation	21,485	1,371		1,371	22,856	21,059
Bad debt expense		0		0	0	11,102
Program event expenses	15,001	2,975		2,975	17,976	0
Miscellaneous	25,902	5,167	140	5,307	31,209	33,275
Total other than personnel costs	<u>690,420</u>	<u>91,465</u>	<u>3,004</u>	<u>94,469</u>	<u>784,889</u>	<u>715,721</u>
Total expenses	<u>\$2,103,329</u>	<u>\$511,553</u>	<u>\$11,651</u>	<u>\$523,204</u>	<u>\$2,626,533</u>	<u>\$2,335,201</u>

*Reclassified for comparative purposes.

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

BROOKLYN CHARTER SCHOOL
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2007
(With comparative totals for the year ended June 30, 2006)

	<u>6/30/07</u>	<u>6/30/06</u>
Cash Flows from Operating Activities:		
Change in net assets	\$436,966	\$377,657
Adjustments to reconcile change in net assets to net cash provided by/(used for) operating activities:		
Depreciation expense	22,856	21,059
(Increase)/decrease in assets:		
Contributions receivable	50,000	(37,674)
Federal grants receivable	(9,827)	0
Accounts receivable - meal fees	1,147	(1,594)
Prepaid insurance	(2,121)	(16,143)
Increase/(decrease) in liabilities:		
Accounts payable and accrued expenses	25,738	(16,467)
Advance payable - New York City	(57,096)	93,431
Total adjustments	<u>30,697</u>	<u>42,612</u>
Net cash provided by operating activities	<u>467,663</u>	<u>420,269</u>
Cash Flows from Investing Activities:		
Purchase of furniture and equipment	<u>(24,464)</u>	<u>(46,205)</u>
Net cash used for investing activities	<u>(24,464)</u>	<u>(46,205)</u>
Net increase in cash and cash equivalents	443,199	374,064
Cash and cash equivalents - beginning of year	<u>434,216</u>	<u>60,152</u>
Cash and cash equivalents - end of year	<u><u>\$877,415</u></u>	<u><u>\$434,216</u></u>
Supplemental disclosures:		
Interest paid - \$0		
Taxes paid - \$0		

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

BROOKLYN CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

Note 1 - Organization and Nature of Activities

Brooklyn Charter School, (“the School”), located in Brooklyn, New York, is a not-for-profit education corporation chartered by the Regents of the University of the State of New York. The School provides a full range of educational services appropriate for grade levels K, 1, 2, 3, 4 and 5. The School completed the 2006-2007 fiscal year with an average enrollment of approximately 235 students. The School is a publicly funded, privately managed school, which is independent of the New York City Board of Education.

The School began operations in September 2000. At the expiration of its initial charter on June 30, 2005, the School was granted a short-term extension of its charter from July 1, 2005 up through and including June 30, 2006 to establish goals for enrollment and attrition, hire personnel to provide special education services, develop a plan to administer parent surveys with goals for response and satisfaction rates, and provide evidence of sufficient internal controls and oversight of fiscal management.

Under the New York Charter Schools Act of 1998, the Board of Regents is authorized to make recommendations regarding the renewal of existing charter schools.

In May, 2006, the Board of Regents approved and granted the second renewal charter and extended the provisional charter of the School for five years up through and including June 30, 2011.

The School 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 - Significant Accounting Policies

a. Basis of Presentation

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America using the accrual basis of accounting.

The School's 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 to specific purposes or the passage of time. The release from restrictions results from the satisfaction of the restricted purposes specified by the donor. Temporarily restricted contributions and grants, the requirements of which are met in the year of donation, are reported as unrestricted. At June 30, 2007, the temporarily restricted net assets all arose from a multi-year pledge that has been restricted to a future time period.
- *Permanently restricted* – accounts for activity restricted by donors that must remain intact in perpetuity. The School did not have any permanently restricted net assets at June 30, 2007.

b. Fixed Assets

Fixed assets are stated at cost or at the fair market value at date of gift, if donated. The School capitalizes fixed assets in excess of pre-defined amounts and which have a useful life of more than one year. Depreciation was computed using the straight-line method over the estimated useful lives of the respective assets, as follows:

Furniture and equipment	5 – 7 years
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c. Cash and Cash Equivalents

Checking and money market accounts with local banks and highly liquid debt instruments purchased with a maturity of three months or less are considered to be cash equivalents for purposes of the accompanying statement of cash flows.

d. Concentration of Credit Risk

The School maintains cash balances in one major financial institution. At times, deposits in these accounts may be in excess of federally insured limits. However, management does not believe that the School is subject to a significant risk of loss on any of these accounts that would be due to the failure of the financial institutions. At year end, the School had uninsured balances of \$798,640.

e. Accounts Receivable – Meal Fees & Allowance for Doubtful Accounts

Meal fees are charged to students who do not qualify for free lunch because of certain family income thresholds.

The School reviews receivables and records an allowance for doubtful accounts on those receivables they feel it is unlikely they will collect based on historical experience and a review of activity subsequent to the balance sheet date.

f. Contributions

Contributions are recorded as revenue upon receipt of cash or unconditional pledges, and are considered available for unrestricted use, unless specifically restricted by the donor, in which case they are recorded as temporarily or permanently restricted.

Contributions expected to be received within one year are recorded at their net realizable value. Long-term pledges are recorded at present value using a risk free rate of return. Conditional contributions received are recorded as liabilities and are recognized as income when the conditions have been substantially met. Government grants that have traits more similar to contracts for service are treated as exchange transactions and are recorded as income when earned.

Contributions receivable are expected to be collected in less than one year.

g. Revenues

Program revenues are recognized based on rates established by the School's funding sources and the amount realizable on the accrual basis in the period during which services are provided. The School is dependent upon grants from the New York City Department of Education (NYCDOE) to carry out its operations. For the year ended June 30, 2007, approximately 91% of the School's total public support and revenue, excluding in-kind contributions, was realized from NYCDOE.

h. Contributed Space

The School's operations are located in a facility provided by the New York City Board of Education, at no charge. As such, the School has recorded the estimated fair market value of this space as revenue and expense in the accompanying statements of activities and functional expenses.

i. Functional Allocation of Expenses

The costs of providing various programs and other activities have been summarized on a functional basis in the accompanying statements of activities and functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

j. 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.

k. Summarized Comparative Information

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the School's financial statements for the year ended June 30, 2006, from which the summarized information was derived.

Note 3 - Fixed Assets

At June 30, 2007, fixed assets consisted of the following:

Furniture and equipment	\$179,331
Less: accumulated depreciation	<u>(90,189)</u>
Total fixed assets, net	<u>\$89,142</u>

Note 4 - Advance Payable – New York City

Receipts from government funding sources are recorded as advances payable and are recognized as income when earned. As of June 30, 2007, advance payable consists of the following:

Prior Years:

New York City (P0040WR0600308):

Advances received – fiscal year 05-06	\$2,045,302	
Funding based on close-out letter	<u>1,971,037</u>	
Advance payable		\$74,265

New York City:

Fiscal year 2004-2005 per close-out letter		5,440
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New York City (CT04020062011426):

Advances received	13,726	
Expenses claimed	<u>0</u>	
		<u>13,726</u>

 Sub-total: prior years 93,431

Advances recovered by New York City (53,137)

Total outstanding relating to prior years 40,294

Current Year:

Advances received – fiscal year 06-07	<u>2,372,323</u>
Funding based on allowable FTE's	2,364,421
Funding based on additional financial action ideas	<u>11,861</u>
	<u>2,376,282</u>

 Amount due from New York City (3,959)

Net Advance Payable – New York City \$36,335

Note 5 - Commitments and Contingencies

On July 1, 2005, the School and NYCDOE signed a facility shared use agreement for the use of certain dedicated space within a New York City public school. The agreement terminates on June 30, 2010, which is the earlier of five years from the commencement date of the agreement or the expiration or termination of the School's charter. The NYCDOE provides various operating services to the School including utilities, custodial and maintenance services, and charges a user fee of \$1.00 per annum. See Note 2h for Contributed Space disclosure.

Note 6 - Temporarily Restricted Net Assets

Temporarily restricted net assets at June 30, 2007 consist of the following:

	<u>6/30/06</u>	<u>New</u>	<u>Released</u>	<u>6/30/07</u>
Time restrictions	<u>\$100,000</u>	<u>\$0</u>	<u>(\$50,000)</u>	<u>\$50,000</u>
Total	<u>\$100,000</u>	<u>\$0</u>	<u>(\$50,000)</u>	<u>\$50,000</u>

**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
Brooklyn Charter School

We have audited the financial statements of Brooklyn Charter School (“the School”) as of and for the year ended June 30, 2007, and have issued our report thereon dated October 16, 2007. 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.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the School’s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School’s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the School’s internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the School’s ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the School’s financial statements that is more than inconsequential will not be prevented or detected by the School’s internal control. We consider the deficiencies described in the accompanying schedule of findings and responses (findings 07-1 and 07-2) to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the School's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

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 Standard*.

We noted certain matters that we reported to management of the School in a separate letter dated October 16, 2007.

The School's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit the School's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, others within the School, 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 16, 2007

**BROOKLYN CHARTER SCHOOL
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2007**

07-1 – Preparation of Financial Statements

Condition: The School did not prepare their own financial statements.

Cause: The School is small and the Business Manager performs most functions in the accounting department. Therefore, it might not be practical for the Business Manager to utilize the time needed to prepare the financial statements.

Effect: Management's financial statements were prepared by the auditor.

Recommendation: The School should consider whether they want the Business Manager to spend the time to prepare the financial statements in accordance with GAAP.

Management response: The School will have the Business Manager prepare the financial statements in fiscal year 2007/2008.

07-2 – Significant Adjustments

Condition: Three audit adjustments were required that were considered significant to make the financial statements free of material error.

Cause: There is no review of the general ledger by anyone other than the person who maintains the books on a daily basis.

Effect: Audit adjustments were made to correct the books.

Recommendation: The Business Manager should review the general ledger prior to the beginning of the audit.

Management response: The Business Manager will prepare all adjustments to the books prior to the start of the audit.