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BROOKLYN CHARTER SCHOOL

Audited Financial Statements

June 30, 2009

BROOKLYN CHARTER SCHOOL

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of
Brooklyn Charter School

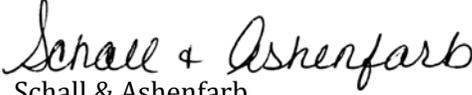
We have audited the accompanying statement of financial position of Brooklyn Charter School ("the School") as of June 30, 2009, and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the School's management. 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, 2008 financial statements and, in our report dated October 27, 2008 we expressed a qualified opinion on those financial statements because of the departure in accounting principles outlined in paragraph 3 below.

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.

As more fully described in Note 1 to the financial statements, the School became the sole member of another not-for-profit organization, The Wedding Garden, Inc. ("WG"). WG is being accounted for on the equity method of accounting. Accounting principles generally accepted in the United States of America requires the consolidation of this other entity and an elimination of intercompany transactions.

In our opinion, except for the effects of the departure of the accounting principle discussed in the preceding paragraph, the financial statements referred to above presents fairly, in all material respects, the financial position of Brooklyn Charter School as of June 30, 2009, 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 22, 2009 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 22, 2009

BROOKLYN CHARTER SCHOOL
STATEMENT OF FINANCIAL POSITION
AT JUNE 30, 2009
(With comparative totals for June 30, 2008)

	<u>6/30/09</u>	<u>6/30/08</u>
Assets		
Cash and cash equivalents (Notes 2c and 2d)	\$1,810,129	\$1,325,092
Contributions receivable (Note 2f)	2,240	0
Federal grants receivable	26,674	6,294
Accounts receivable - meal fees (net of allowance for doubtful accounts of \$46,729) (Note 2e)	0	634
Prepaid expenses	58,548	32,408
Investment in The Wedding Garden, Inc. (Note 1)	241,943	197,671
Furniture and equipment, net (Notes 2b and 3)	<u>126,231</u>	<u>104,087</u>
Total assets	<u><u>\$2,265,765</u></u>	<u><u>\$1,666,186</u></u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$338,527	\$284,141
Advance payable - New York City (Note 4)	<u>37,152</u>	<u>23,561</u>
Total liabilities	<u>375,679</u>	<u>307,702</u>
Net Assets: (Note 2a)		
Unrestricted	<u>1,890,086</u>	<u>1,358,484</u>
Total net assets	<u>1,890,086</u>	<u>1,358,484</u>
Total liabilities and net assets	<u><u>\$2,265,765</u></u>	<u><u>\$1,666,186</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, 2009
(With comparative totals for the year ended June 30, 2008)

	<u>6/30/09</u>	<u>6/30/08</u>
Unrestricted:		
Public Support and Revenue:		
New York City grants (Note 4)	\$2,971,924	\$2,614,516
Federal grants	110,712	106,829
Contributions	79,350	79,391
Contributions - related party	0	35,000
In-kind contributions (Note 2h)	484,050	483,550
Interest income	9,539	15,220
Other income	6,775	4,532
	<u>3,662,350</u>	<u>3,339,038</u>
Expenses:		
Program services:		
Instructional support	<u>2,308,086</u>	<u>2,130,081</u>
Supporting services:		
Management and general	962,287	778,751
Fundraising	<u>14,297</u>	<u>12,960</u>
	<u>976,584</u>	<u>791,711</u>
Total expenses	<u>3,284,670</u>	<u>2,921,792</u>
Change in net assets from operations	377,680	417,246
Non operating activity:		
Contribution of The Wedding Garden, Inc. (Note 1)	<u>153,922</u>	<u>197,671</u>
Change in net assets	531,602	614,917
Net assets - beginning of year	<u>1,358,484</u>	<u>743,567</u>
Net assets - end of year	<u><u>\$1,890,086</u></u>	<u><u>\$1,358,484</u></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, 2009
(With comparative totals for the year ended June 30, 2008)

	Program Services	Supporting Services			Total Expenses 6/30/09	Total Expenses 6/30/08*
	Instructional Support	Management and General	Fundraising	Total		
Salaries	\$1,083,684	\$647,150	\$8,348	\$655,498	\$1,739,182	\$1,523,266
Substitute teachers	32,933				32,933	35,835
Payroll taxes and employee benefits	349,910	208,957	2,696	211,653	561,563	494,714
Total personnel costs	1,466,527	856,107	11,044	867,151	2,333,678	2,053,815
Occupancy (in-kind) (Note 2h)	455,007	26,623	2,420	29,043	484,050	483,550
Professional fees	2,500	25,576		25,576	28,076	29,571
Insurance	34,481	7,062		7,062	41,543	38,371
Maintenance and repairs	26,658	1,817		1,817	28,475	26,250
Supplies and materials	95,127	24,685	602	25,287	120,414	132,301
Staff development	104,221			0	104,221	49,772
Depreciation	30,976	1,977		1,977	32,953	27,574
Benefits - related party		0		0	0	5,000
Program event expenses	44,992	8,923		8,923	53,915	25,026
Miscellaneous	47,597	9,517	231	9,748	57,345	50,562
Total other than personnel costs	841,559	106,180	3,253	109,433	950,992	867,977
Total expenses	\$2,308,086	\$962,287	\$14,297	\$976,584	\$3,284,670	\$2,921,792

* 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, 2009
(With comparative totals for the year ended June 30, 2008)

	6/30/09	6/30/08
Cash Flows from Operating Activities:		
Change in net assets	\$531,602	\$614,917
Adjustments to reconcile change in net assets to net cash provided by/(used for) operating activities:		
Depreciation expense	32,953	27,574
Net change in investment in The Wedding Garden, Inc.	(44,272)	(197,671)
(Increase)/decrease in assets:		
Contributions receivable	(2,240)	50,000
Federal grants receivable	(20,380)	3,533
Accounts receivable - meal fees	634	(187)
Prepaid expenses	(26,140)	(9,382)
Increase/(decrease) in liabilities:		
Accounts payable and accrued expenses	54,386	14,186
Advance payable - New York City	13,591	(12,774)
Total adjustments	8,532	(124,721)
Net cash provided by operating activities	540,134	490,196
 Cash Flows from Investing Activities:		
Purchase of furniture and equipment	(55,097)	(42,519)
Net cash used for investing activities	(55,097)	(42,519)
Net increase in cash and cash equivalents	485,037	447,677
Cash and cash equivalents - beginning of year	1,325,092	877,415
Cash and cash equivalents - end of year	\$1,810,129	\$1,325,092
 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, 2009**

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 2008-2009 fiscal year with an average enrollment of approximately 234 students. The School is a publicly funded, privately managed school, which is independent of the New York City Department 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.

During the fiscal year ended June 30, 2008, the School became the sole member of The Wedding Garden, Inc. (“WG”), an organization exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code. The School has elected to treat its sole membership as an investment under the equity method. Accounting principles generally accepted in the United States of America requires the School to consolidate the financial statements of both entities and to eliminate intercompany transactions.

Note 2 - Significant Accounting Policies

a. Basis of Presentation

The accompanying financial statements have been prepared 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. The School did not have any temporary restricted net assets at June 30, 2009.

b. Fixed Assets

Fixed assets are stated at cost or at the fair market value at the 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

Financial instruments which potentially subject the School to concentration of credit risk consist of cash and money market accounts. The School places its temporary cash and money market accounts with a financial institution they deem to be credit worthy. At year end and at various points throughout the year, material cash balances were in excess of FDIC insurance levels; however, the School has not experienced any losses from these accounts.

e. Accounts Receivable – Meal Fees and 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 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.

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, 2009, approximately 94% 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 Department of Education, at a charge of \$1.00 per annum. 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, 2008, from which the summarized information was derived.

Certain reclassifications have been made to conform with the current presentation.

l. Accounting for Uncertainty in Income Taxes

The FASB issued FASB Interpretation No. 48 ("FIN 48"), *Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109*. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB Statement No. 109, *Accounting for Income Taxes*. FIN 48 prescribes a recognition threshold and measurement standard for the financial statement recognition and measurement of an income tax position taken or expected to be taken on a tax return. In addition, FIN 48 provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. The effective date of applying FIN 48 has been postponed until December 31, 2009. The School has elected to defer the application of FIN 48 and it is not expected to have a material effect on the School's financial statements.

Note 3 - Furniture and Equipment

At June 30, 2009, fixed assets consisted of the following:

Furniture and equipment	\$277,127
Less: accumulated depreciation	<u>(150,896)</u>
Furniture and equipment, net	<u>\$126,231</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, 2009, advance payable consists of the following:

Prior Years:

New York City (CT04020062011426):		
Advances received		\$ 13,726
New York City:		
Fiscal year 2004-2005 per close-out letter		5,440
New York City (P0040WR0600308):		
Advances received – fiscal year 2005-2006	\$2,045,302	
Funding based on close-out letter	<u>(1,971,037)</u>	
Advance payable – fiscal year 2005-2006		74,265
New York City – fiscal year 2006-2007		
Funding based on allowable FTE's	2,364,421	
Funding based on additional financial action ideas	<u>11,861</u>	
Total funding – fiscal year 2006-2007	2,376,282	
Less: advances received	<u>(2,372,323)</u>	
Amount (due from) New York City – fiscal year 06-07		(3,959)
Advances recovered by New York City		(53,137)
Advances received – fiscal year 2007-2008	\$2,601,742	
Funding based on allowable FTE's	<u>(2,614,516)</u>	
Amount due to New York City		<u>(12,774)</u>
Total outstanding relating to prior years		23,561
Advances received – fiscal year 2008-2009	\$2,985,515	
Funding based on allowable FTE's	<u>(2,971,924)</u>	
Amount due to New York City		<u>13,591</u>
Net Advance Payable – New York City		<u>\$37,152</u>

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.

Government contracts are subject to audit by the grantor. Any disallowances as a result of those audits will be expensed in the year notified.

Note 6 - Retirement Plan

Effective January, 2008, the School established a 401(k) profit sharing plan. Employees at least 21 years old are eligible to participate. The School's contributions are determined annually, on a discretionary basis, which was 4% through June 2009. Contributions for 2009 totaled \$46,180.

**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, 2009, and have issued our report thereon dated October 22, 2009. As more fully described in Note 1 to the financial statements, the School has excluded the financial position of an organization that it is a sole member of, and its related statements of activities, functional expenses and cash flow in the accompanying financial statements. In our opinion, accounting principles generally accepted in the United States of America require the consolidation of such information.

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.

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.

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.

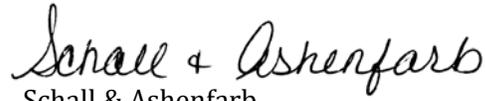
Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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*.

We noted certain matters that we reported to management of the School in a separate letter dated October 22, 2009.

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 22, 2009

**BROOKLYN CHARTER SCHOOL
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2009**

Current Year:

None

Prior Year Follow-Up:

None