

# **Broome Street Academy Charter High School**

Report to the Audit Committee

October 16, 2012



**McGladrey LLP**

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October 16, 2012

Audit Committee  
Broome Street Academy Charter High School  
121 Avenue of the Americas  
New York, NY 10013

We are pleased to present this report related to our audits of the financial statements of Broome Street Academy Charter High School ("BSA") for the year ended June 30, 2012 and for the period from October 19, 2010 (inception date) to June 30, 2011. This report summarizes certain matters required by professional standards to be communicated to you in your oversight responsibility for BSA's financial reporting process.

This report is intended solely for the information and use of the audit committee, the board of trustees and management, and is not intended to be, and should not be, used by anyone other than these specified parties. It would be our pleasure to respond to any questions you have about this report. We appreciate the opportunity to be of service to BSA.

*McGladrey LLP*



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# Required Communications

Statement on Auditing Standards No. 114 requires the auditor to communicate certain matters to keep those charged with governance adequately informed about matters related to the financial statement audit that are, in our professional judgment, significant and relevant to the responsibilities of those charged with governance in overseeing the financial reporting process. The following summarizes these communications.

Area	Comments
<b>Auditor's Responsibility Under Professional Standards</b>	Our responsibility under auditing standards generally accepted in the United States of America and <i>Government Auditing Standards</i> has been described to you in our arrangement letter dated July 16, 2012.
<b>Accounting Practices</b>	<b>Adoption of, or Change in, Accounting Policies</b> Management has the ultimate responsibility for the appropriateness of the accounting policies used by BSA. We have reviewed the significant accounting policies followed by BSA in the preparation of its financial statements, and have no significant observations.  <b>Significant or Unusual Transactions</b> We did not identify any significant or unusual transactions or significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.  <b>Alternative Treatments Discussed with Management</b> We did not discuss with management any alternative treatments within generally accepted accounting principles for accounting policies and practices related to material items during the current audit period.
<b>Management's Judgments and Accounting Estimates</b>	Summary information about the process used by management in formulating particularly sensitive accounting estimates and about our conclusions regarding the reasonableness of those estimates is in the attached "Summary of Accounting Estimates."
<b>Financial Statement Disclosures</b>	At our meeting with you, we will discuss the following items as they relate to the neutrality, consistency, and clarity of the disclosures in the financial statements: <ul style="list-style-type: none"><li>• Related party transactions</li><li>• Contingency</li></ul>
<b>Audit Adjustments</b>	Audit adjustments recorded by BSA are shown on the attached "Summary of Recorded Audit Adjustments."
<b>Uncorrected Misstatements</b>	We did not accumulate uncorrected misstatements.

Area	Comments
<b>Disagreements with Management</b>	We encountered no disagreements with management over the application of significant accounting principles, the basis for management's judgments on any significant matters, the scope of the audit, or significant disclosures to be included in the financial statements.
<b>Consultations with Other Accountants</b>	We are not aware of any consultations management had with other accountants about accounting or auditing matters.
<b>Significant Issues Discussed with Management</b>	No significant issues arising from the audit were discussed or were the subject of correspondence with management.
<b>Difficulties Encountered in Performing the Audit</b>	We did not encounter any difficulties in dealing with management during the audit.
<b>Letter Communicating Significant Deficiencies and Material Weaknesses</b>	The significant deficiency we identified during our audit is included in our report on internal control over financial reporting and on compliance and other matters, as required under <i>Government Auditing Standards</i> .
<b>Significant Written Communications Between Management and Our Firm</b>	Significant written communications between our firm and the management are attached as Exhibit A.

# Broome Street Academy Charter High School

## Summary of Accounting Estimates

Year Ended June 30, 2012

Accounting estimates are an integral part of the preparation of financial statements and are based upon management's current judgment. The process used by management encompasses their knowledge and experience about past and current events and certain assumptions about future events. You may wish to monitor throughout the year the process used to determine and record these accounting estimates. The following describes the significant accounting estimates reflected in BSA's June 30, 2012 financial statements.

Area	Accounting Policy	Estimation Process	Comments
<b>Allocation of expenses between program and supporting services</b>	Certain expenses are allocated among program and supporting services based on their functional classification.	<p><u>Salaries and wages allocation</u> - management allocated salaries and wages based on an estimate of time and effort spent by each staff member on program services, general and administrative, and fund-raising activities.</p> <p><u>Direct costing</u> - management and the accounting department's staff allocated certain expenditures based on the description of the invoices directly related to program services, general and administrative, and fund-raising activities.</p> <p><u>Occupancy and allocated costs</u> - Based on square footage used by program services and general and administrative activities.</p>	We have reviewed management's bases for allocation of expenses between functional categories and found them to be reasonable.

Area	Accounting Policy	Estimation Process	Comments
<b>Recoverability period of property and equipment</b>	Depreciation of property and equipment is being provided for by the straight-line method over the estimated useful lives of the related assets. Amortization of leasehold improvements is being provided for by the straight-line method over the remaining term of the lease.	The following are the estimated useful lives of the assets: <u>Furniture and equipment</u> - 3 years <u>Computer equipment</u> - 3 - 5 years <u>Leasehold improvements</u> - remaining term of lease	The recoverability period used by management is deemed to be reasonable.

# Broome Street Academy Charter High School

## Summary of Recorded Audit Adjustments

Year Ended June 30, 2012

Description	Effect - Increase (Decrease)				
	Assets	Liabilities	Net Assets	Revenue	Expenses
To recognize deferred rent obligation	\$ -	\$ 96,000	\$ (96,000)	\$ -	\$ 96,000
To record accrued salaries of teachers	-	100,097	(100,097)	-	100,097
To recognize in-kind donation	6,500	-	6,500	29,714	23,214
To correct depreciation expense	(4,731)	-	(4,731)	-	4,731
Total	\$ 1,769	\$ 196,097	\$ (194,328)	\$ 29,714	\$ 224,042



## **Exhibit A - Significant Written Communications Between Management and Our Firm**



Broome Street Academy  
Charter High School  
121 Avenue of the Americas  
New York NY 10013  
[www.broomestreetacademy.org](http://www.broomestreetacademy.org)

212-453-0295 phone  
212-966-7253 fax  
Jeremy Kaplan  
*Principal*

October 16, 2012

McGladrey LLP  
1185 Avenue of the Americas  
New York, NY 10036-2602

In connection with your audit of the statements of financial position of Broome Street Academy Charter High School ("BSA") as of June 30, 2012 and 2011, and the related statements of activities, functional expenses and cash flows for the year ended June 30, 2012 and for the period from October 19, 2010 (inception date) to June 30, 2011, we confirm that we are responsible for the fair presentation in the financial statements of financial position, results of operations, and cash flows in conformity with accounting principles generally accepted in the United States of America.

We confirm, to the best of our knowledge and belief, as of October 16, 2012 the following representations made to you during your audits:

1. The financial statements referred to above are fairly presented in conformity with accounting principles generally accepted in the United States of America.
2. We have made available to you all:
  - a. Financial records and related data.
  - b. Minutes of the meetings of trustees and committees of trustees or summaries of actions of recent meetings for which minutes have not yet been prepared.
3. We have no knowledge of fraud or suspected fraud affecting BSA involving:
  - a. Management.
  - b. Employees who have significant roles in the internal control.
  - c. Others where the fraud could have a material effect on the financial statements.
4. We acknowledge our responsibility for the design and implementation of programs and controls to provide reasonable assurance that fraud is prevented and detected.
5. We have no knowledge of any allegations of fraud or suspected fraud affecting BSA received in communications from employees, former employees, regulators, or others.
6. We are aware of no significant deficiencies, including material weaknesses, in the design or operation of internal controls, except as disclosed in your report that could adversely affect BSA's ability to record, process, summarize, and report financial data.
7. There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
8. We have no plans or intentions that may materially affect the carrying value or classification of assets. In that regard:
  - a. BSA has no significant amounts of idle property and equipment.
  - b. BSA has no plans or intentions to discontinue any significant services or activities.

9. The following have been properly recorded and/or disclosed in the financial statements:
- a. Related-party relationships, transactions, and related amounts receivable or payable including sales, purchases, loans, transfers, leasing arrangements, and guarantees, all of which have been recorded in accordance with the economic substance of the transactions.
  - b. All leases and material amounts of rental obligations under long-term leases.
  - c. All significant estimates and material concentrations known to management which are to be disclosed in accordance with the Risks and Uncertainties Topic of the FASB Accounting Standards Codification. Significant estimates are estimates at the statement of financial position date which could change materially within the next year. Concentrations refer to volumes of business, revenues, available sources of supply, or markets for which events could occur which would significantly disrupt normal finances within the next year.
  - d. Concentrations of credit risk.
  - e. Refundable advances and/or deferred revenue from exchange transactions.
  - f. All recordable contributions, by appropriate net asset class.
  - g. Allocations of functional expenses based on reasonable basis.
  - h. Amounts of contractual obligations for construction and/or purchase of real property, equipment, other assets and intangibles.
10. We are responsible for making the accounting estimates included in the financial statements. Those estimates reflect our judgment based on our knowledge and experience about past and current events and our assumptions about conditions we expect to exist and courses of action we expect to take. In that regard, adequate provisions have been made:
- a. To reduce receivables, including contributions, to their estimated net collectable amounts.
  - b. For pension obligations, postretirement benefits other than pensions and deferred compensation agreements attributable to employee services rendered through June 30, 2012.
11. There are no:
- a. Material transactions that have not been properly recorded in the accounting records underlying the financial statements.
  - b. Violations or possible violations of laws or regulations whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency. In that regard, we specifically represent that we have not been designated as, or alleged to be, a "potentially responsible party" by the Environmental Protection Agency in connection with any environmental contamination.
  - c. Other material liabilities or gain or loss contingencies that are required to be accrued or disclosed by the Contingencies Topic of the Accounting Standards Codification.
  - d. Guarantees, whether written or oral, under which BSA is contingently liable.
  - e. Arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances.
  - f. Lines of credit or similar arrangements.
  - g. Agreements to repurchase assets previously sold.
  - h. Security agreements in effect under the Uniform Commercial Code.
  - i. Liens or encumbrances on assets and pledges of assets.
  - j. Liabilities which are subordinated to any other actual or possible liabilities of BSA.

- k. Conditional promises to give.
  - l. Reclassifications between net asset classes.
  - m. Composition of assets in amounts needed to comply with all donor restrictions.
  - n. Current and deferred assets and liabilities related to the accounting for income taxes. Additionally, we have evaluated the tax positions under the two-step approach for recognition and measurement of uncertain tax positions required by the Income Taxes Topic of the FASB Accounting Standards Codification.
  - o. Board designated unrestricted net assets.
  - p. Material losses to be sustained in the fulfillment of or from the inability to fulfill any commitment, including promises to give.
  - q. Environmental clean-up obligations.
  - r. Amounts held for others under agency and/or split interest agreements.
12. There are no unasserted claims or assessments that our lawyer has advised us are probable of assertion and must be disclosed in accordance with the Contingencies Topic of the Accounting Standards Codification.
13. BSA has satisfactory title to all owned assets.
14. We have complied with all aspects of contractual agreements, grants, and donor restrictions that would have a material effect on the financial statements in the event of noncompliance. In connection therewith, we specifically represent that we are responsible for determining that we are not subject to the requirements of the Single Audit Act and OMB Circular No. A-133, because we have not received, expended, or otherwise been the beneficiary of the required amount of federal awards during the period of this audit.
15. We have received a determination from the Internal Revenue Service that we are exempt from federal income taxes as a Section 501(c)(3) not-for-profit corporation, and we have complied with the IRS regulations regarding this exemption.
16. We are responsible for determining that significant events or transactions that have occurred since the statement of financial position date and through October 16, 2012, have been recognized or disclosed in the financial statements. No events or transactions have occurred subsequent to the balance sheet date and through October 16, 2012, that would require recognition or disclosure in the financial statements. We further represent that as of October 16, 2012, the financial statements were complete in a form and format that complied with accounting principles generally accepted in the United States of America, and all approvals necessary for issuance of the financial statements had been obtained.
17. During the course of your audit, you may have accumulated records containing data that should be reflected in our books and records. All such data have been so reflected. Accordingly, copies of such records in your possession are no longer needed by us.

In connection with your audit, conducted in accordance with Government Auditing Standards, we confirm:

18. We are responsible for:
- a. Compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to BSA.
  - b. Establishing and maintaining effective internal control over financial reporting.

19. We have identified and disclosed to you:
- a. All laws, regulations, and provisions of contracts and grant agreements that have a direct and material effect on the determinations of financial statement amounts or other financial data significant to audit objectives.
  - b. Violations (and possible violations) of laws, regulations, and provisions of contracts and grant agreements whose effects should be considered for disclosure in the auditor's report on noncompliance.
20. There have been no reported fraud, illegal acts, violations of provisions of contracts or grant agreements, or abuse.
21. We have a process to track the status of audit findings and recommendations.
22. We have provided you with our views on your reported findings, conclusions, and recommendations, as well as our planned corrective actions for the report.
23. We have reviewed, approved, and take full responsibility for the financial statements and related notes and acknowledge the auditor's role in the preparation of this information.
24. We have reviewed, approved, and take full responsibility for all accrual adjustments and acknowledge the auditor's role in the preparation of the adjustments.

**BROOME STREET ACADEMY CHARTER HIGH SCHOOL**

  
Jeremy Kaplan, Principal

  
Irma Gonzalez, Chief Financial Officer



# **Broome Street Academy Charter High School**

Financial Report

June 30, 2012

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## Independent Auditor's Report

To the Board of Trustees  
Broome Street Academy Charter High School  
New York, New York

We have audited the accompanying statements of financial position of Broome Street Academy Charter High School ("BSA") as of June 30, 2012 and 2011, and the related statements of activities, functional expenses, and cash flows for the year ended June 30, 2012 and for the period from October 19, 2010 (inception date) to June 30, 2011. These financial statements are the responsibility of BSA's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Broome Street Academy Charter High School as of June 30, 2012 and 2011, and the changes in its net assets and its cash flows for the year ended June 30, 2012 and for the period from October 19, 2010 (inception date) to June 30, 2011 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, 2012 on our consideration of BSA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is 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 audits.

*McGladrey LLP*

New York, New York  
October 16, 2012

**Broome Street Academy Charter High School**

**Statements of Financial Position  
June 30, 2012 and 2011**

	2012	2011
<b>ASSETS</b>		
Cash	\$ 474,519	\$ 138,506
Restricted Cash	25,045	-
Grants, Contracts and Other Receivables	206,371	20,172
Prepaid Expenses and Other Assets	25,683	-
Property and Equipment, net	<u>388,219</u>	<u>45,018</u>
<b>Total assets</b>	<u><b>\$ 1,119,837</b></u>	<u><b>\$ 203,696</b></u>
<b>LIABILITIES AND NET ASSETS</b>		
Liabilities:		
Refundable advances	\$ 8,440	\$ -
Accounts payable and accrued expenses	176,486	-
Deferred rent obligation	<u>96,000</u>	<u>-</u>
<b>Total liabilities</b>	<u><b>280,926</b></u>	<u><b>-</b></u>
Net Assets:		
Unrestricted:		
Reserve - contingency	25,000	-
Undesignated for general use	405,758	-
Net investment in fixed assets	<u>388,219</u>	<u>45,018</u>
<b>Total unrestricted</b>	<b>818,977</b>	<b>45,018</b>
Temporarily restricted	<u>19,934</u>	<u>158,678</u>
<b>Total net assets</b>	<u><b>838,911</b></u>	<u><b>203,696</b></u>
<b>Total liabilities and net assets</b>	<u><b>\$ 1,119,837</b></u>	<u><b>\$ 203,696</b></u>

See Notes to Financial Statements.

**Broome Street Academy Charter High School**

**Statements of Activities**

**Year Ended June 30, 2012 and Period From October 19, 2010 (Inception Date) to June 30, 2011**

	2012			2011		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Operating Revenue:						
State and local per pupil operating revenue	\$ 2,312,715	\$ -	\$ 2,312,715	\$ -	\$ -	\$ -
Government grants and contracts	399,588	-	399,588	-	-	-
<b>Total operating revenue</b>	<b>2,712,303</b>	<b>-</b>	<b>2,712,303</b>	<b>-</b>	<b>-</b>	<b>-</b>
Operating Expenses:						
Program services:						
Regular education	1,231,927	-	1,231,927	69,462	-	69,462
Special education	600,158	-	600,158	19,302	-	19,302
<b>Total program services</b>	<b>1,832,085</b>	<b>-</b>	<b>1,832,085</b>	<b>88,764</b>	<b>-</b>	<b>88,764</b>
Management and general	543,531	-	543,531	77,366	-	77,366
<b>Total operating expenses</b>	<b>2,375,616</b>	<b>-</b>	<b>2,375,616</b>	<b>166,130</b>	<b>-</b>	<b>166,130</b>
<b>Net revenue (deficit) from school operations</b>	<b>336,687</b>	<b>-</b>	<b>336,687</b>	<b>(166,130)</b>	<b>-</b>	<b>(166,130)</b>
Public Support and Other Revenue (Expenses):						
Public support:						
Contributions	82,365	-	82,365	1,050	-	1,050
Foundation and corporate support	3,500	245,000	248,500	-	387,000	387,000
Special events, net of direct cost of \$14,599	33,926	-	33,926	-	-	-
<b>Total public support</b>	<b>119,791</b>	<b>245,000</b>	<b>364,791</b>	<b>1,050</b>	<b>387,000</b>	<b>388,050</b>
Interest Income	121	-	121	-	-	-
Fund-Raising Expenses	(66,384)	-	(66,384)	(18,224)	-	(18,224)
Net Assets Released From Restrictions	383,744	(383,744)	-	228,322	(228,322)	-
<b>Total public support and other revenue (expenses)</b>	<b>437,272</b>	<b>(138,744)</b>	<b>298,528</b>	<b>211,148</b>	<b>158,678</b>	<b>369,826</b>
<b>Change in net assets</b>	<b>773,959</b>	<b>(138,744)</b>	<b>635,215</b>	<b>45,018</b>	<b>158,678</b>	<b>203,696</b>
Net Assets:						
Beginning	45,018	158,678	203,696	-	-	-
<b>Ending</b>	<b>\$ 818,977</b>	<b>\$ 19,934</b>	<b>\$ 838,911</b>	<b>\$ 45,018</b>	<b>\$ 158,678</b>	<b>\$ 203,696</b>

See Notes to Financial Statements.

Broome Street Academy Charter High School

Statements of Functional Expenses

Year Ended June 30, 2012 and Period From October 19, 2010 (Inception Date) to June 30, 2011

	2012							2011						
	Program Services			Management and General	Fund-Raising	Total Supporting Services	Total Expenses	Program Services			Management and General	Fund-Raising	Total Supporting Services	Total Expenses
	Regular Education	Special Education	Total					Regular Education	Special Education	Total				
Salaries	\$ 691,566	\$ 384,810	\$ 1,076,376	\$ 225,500	\$ 38,316	\$ 263,816	\$ 1,340,192	\$ 41,395	\$ 10,630	\$ 52,025	\$ 44,997	\$ 15,490	\$ 60,487	\$ 112,512
Payroll taxes and employee benefits	114,022	69,304	183,326	38,760	8,097	46,857	230,183	7,118	1,828	8,946	7,737	2,664	10,401	19,347
Professional fees	92,993	38,901	131,894	102,131	18,243	120,374	252,268	3,463	948	4,411	8,043	70	8,113	12,524
Audit fees	-	-	-	2,500	-	2,500	2,500	-	-	-	-	-	-	-
Advertising and recruitment	13,934	9,682	23,616	2,742	58	2,800	26,416	2,410	937	3,347	527	-	527	3,874
Equipment and software maintenance	30,205	4,509	34,714	5,236	-	5,236	39,950	1,419	552	1,971	1,971	-	1,971	3,942
Equipment purchases	15,221	3,478	18,699	-	-	-	18,699	8,132	2,198	10,330	3,190	-	3,190	13,520
Insurance	14,563	5,664	20,227	3,760	-	3,760	23,987	-	-	-	1,410	-	1,410	1,410
Membership dues	-	-	-	4,250	-	4,250	4,250	-	-	-	-	-	-	-
Occupancy costs	96,834	36,956	133,790	128,289	-	128,289	262,079	-	-	-	-	-	-	-
Office, instructional supplies and materials	67,131	14,060	81,191	6,935	305	7,240	88,431	942	367	1,309	2,665	-	2,665	3,974
Postage, printing and copying	4,084	113	4,197	4,294	312	4,606	8,803	3,454	1,403	4,857	539	-	539	5,396
Staff development	18,417	778	19,195	2,010	897	2,907	22,102	-	-	-	4,259	-	4,259	4,259
Student meals	1,939	-	1,939	-	-	-	1,939	-	-	-	-	-	-	-
Telephone	6,740	1,439	8,179	720	-	720	8,899	699	271	970	970	-	970	1,940
Travel	-	-	-	92	-	92	92	-	-	-	147	-	147	147
Youth events	25,632	16,791	42,423	-	-	-	42,423	430	168	598	-	-	-	598
Miscellaneous expenses	1,225	571	1,796	7,331	25	7,356	9,152	-	-	-	911	-	911	911
Depreciation and amortization	37,421	13,102	50,523	8,981	131	9,112	59,635	-	-	-	-	-	-	-
<b>Total expenses</b>	<b>\$ 1,231,927</b>	<b>\$ 600,158</b>	<b>\$ 1,832,085</b>	<b>\$ 543,531</b>	<b>\$ 66,384</b>	<b>\$ 609,915</b>	<b>\$ 2,442,000</b>	<b>\$ 69,462</b>	<b>\$ 19,302</b>	<b>\$ 88,764</b>	<b>\$ 77,366</b>	<b>\$ 18,224</b>	<b>\$ 95,590</b>	<b>\$ 184,354</b>

See Notes to Financial Statements.

**Broome Street Academy Charter High School**

**Statements of Cash Flows**

**Year Ended June 30, 2012 and Period From October 19, 2010 (Inception Date) to June 30, 2011**

	2012	2011
Cash Flows From Operating Activities:		
Change in net assets	\$ 635,215	\$ 203,696
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	59,635	-
Deferred rent obligation	96,000	-
Donated equipment and other assets	(17,315)	-
Loss on equipment	4,931	-
Changes in operating assets and liabilities:		
Increase in restricted cash	(25,045)	-
Increase in grants, contracts and other receivables	(186,199)	(20,172)
Increase in prepaid expenses and other assets	(14,868)	-
Increase in refundable advances	8,440	-
Increase in accounts payable and accrued expenses	176,486	-
<b>Net cash provided by operating activities</b>	<b>737,280</b>	<b>183,524</b>
Cash Flows Used In Investing Activity - acquisition of property and equipment	<u>(401,267)</u>	<u>(45,018)</u>
<b>Net increase in cash</b>	<b>336,013</b>	<b>138,506</b>
Cash:		
Beginning	<u>138,506</u>	<u>-</u>
Ending	<u><u>\$ 474,519</u></u>	<u><u>\$ 138,506</u></u>

## Broome Street Academy Charter High School

### Notes to Financial Statements

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#### **Note 1. Organization and Principal Business Activity**

Broome Street Academy Charter High School ("BSA") is a New York State, not-for-profit educational corporation operating as a charter school in Manhattan, New York. On October 19, 2010, the Board of Regents of the University of the State of New York granted BSA a provisional charter valid for a term of five years and renewable upon expiration. The charter authorized BSA to provide instruction to students in the ninth through twelfth grades.

BSA's mission is to prepare all students to graduate with Regents diplomas through a rigorous curriculum that is grounded in the principles of positive youth development. BSA is a tuition-free public charter high school devoted to providing students the necessary skills and support to graduate with a Regents diploma, while preparing them for a successful future beyond high school. BSA's admissions policy gives preference to students who are homeless, in foster care, or from low-performing middle schools.

BSA opened in the fall of 2011 with a freshman class, and will grow by one grade level over the next three years until it hits capacity (ninth through twelfth grade) in the 2014-2015 school year. BSA's model merges academic, social, and emotional services to prepare students to graduate with a New York State Regents diploma, providing opportunities for a successful future.

BSA is partnered with, and housed within, The Door - A Center of Alternatives, Inc. ("The Door"), a not-for-profit organization under Section 501(c)(3) of the Internal Revenue Code founded in 1972 to provide a full range of integrated services to any adolescent between the ages of 12 and 21. The Door is a leading youth development agency that offers a full range of supportive programming in the areas of health, mental health, career and workforce development, legal services, supportive housing, and arts and recreation. Through the support found at BSA and The Door, New York City's most at-risk students will realize their greatest potential.

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

Basis of Financial Statement Presentation: The financial statements of BSA have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America.

Cash and Concentration of Credit Risk: BSA's cash in bank accounts are maintained with one financial institution, and balances at times may exceed federally insured limits. BSA has not experienced any losses in such accounts.

Grants and Refundable Advances: BSA records cash received on certain government grants and contracts as refundable advances until related services are performed or qualifying expenditures are incurred, at which time it is recognized as revenue.

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

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

## **Broome Street Academy Charter High School**

### **Notes to Financial Statements**

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

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

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

A number of volunteers have made a contribution of their time to BSA to develop its academic and other programs and to serve on the board of trustees. The value of this contributed time is not reflected in these financial statements as such services either do not require specialized skills or would not typically be purchased had they not been provided by donation.

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

**Property and Equipment and Related Depreciation and Amortization:** Property and equipment is recorded at cost. Additions and improvements in excess of \$5,000 with an estimated useful life of more than one year are capitalized. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Amortization of leasehold improvements is provided on the straight-line method over the remaining term of the lease. Property and equipment acquired with certain government contract funds is recorded as expenses pursuant to the terms of the contract.

**Accounting 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 assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates.

**Income Taxes:** BSA is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (the "Code"). As a nonprofit organization, BSA is subject to unrelated business income tax ("UBIT"), if applicable. For the tax year ended June 30, 2012 and for the period from October 19, 2010 to June 30, 2011, BSA did not owe any UBIT. Management evaluated BSA's tax positions and concluded that BSA had taken no uncertain tax positions that require adjustments to the financial statements.

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

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

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

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

## Broome Street Academy Charter High School

### Notes to Financial Statements

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

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

	<u>2012</u>	<u>2011</u>	<u>Estimated Useful Life</u>
Furniture and equipment	\$ 33,399	\$ -	3 years
Computer equipment	229,278	45,018	3 - 5 years
Leasehold improvements	<u>185,177</u>	<u>-</u>	Term of lease
	447,854	45,018	
Less accumulated depreciation and amortization	<u>(59,635)</u>	<u>-</u>	
	<u>\$ 388,219</u>	<u>\$ 45,018</u>	

#### Note 6. Pension Plan

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

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

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

During the year ended June 30, 2012 and from inception to June 30, 2011, BSA contributed \$6,874 and \$3,098, respectively, to the plan.

#### Note 7. Related Party Transactions

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

The Door assisted with the establishment of BSA and in obtaining its charter. The Door also acted as fiscal conduit for BSA prior to obtaining its charter through June 30, 2011.

On May 12, 2011, BSA entered into a service agreement with The Door to provide administrative support, fiscal management and information technology. This service agreement expired on June 30, 2012 and was subsequently extended to June 30, 2013. BSA paid \$75,000 to The Door under this service agreement during the year ended June 30, 2012.



## Broome Street Academy Charter High School

### Notes to Financial Statements

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

BSA signed a five-year operating lease agreement, commencing on July 1, 2011, with The Door for classrooms and office space at 121 Avenue of the Americas, New York, NY 10013. Rent expense for the fiscal year ended June 30, 2012 amounted to \$130,000. Aggregate minimum rent payable on this agreement is as follows:

Year ending June 30,

2013	\$ 200,000
2014	250,000
2015	275,000
2016	<u>275,000</u>
	<u>\$ 1,000,000</u>

#### Note 8. Temporarily Restricted Net Assets

Temporarily restricted net assets at June 30, 2012 consist of contributions restricted for fiscal year 2013.

#### Note 9. Contingency

Certain grants and contracts may be subject to audit by the funding sources. Such audits may result in disallowances of costs submitted for reimbursement by BSA. Management does not anticipate that any cost disallowances will have a material effect on the accompanying financial statements. Accordingly, no amounts have been provided in the accompanying financial statements for such potential claims.

#### Note 10. Subsequent Events

BSA evaluates events occurring after the date of the financial statements to consider whether or not the impact of such events needs to be reflected and/or disclosed in the financial statements. Such evaluation is performed through the date the financial statements are available for issuance, which was October 16, 2012 for these financial statements.

In July 2012, BSA entered into a construction services contract amounting to \$180,000 for Phase II of the renovation and construction of classroom space and facilities at 555 Broome Street, New York, New York.



**Independent Auditor's Report on Internal Control Over Financial Reporting  
and on Compliance and Other Matters Based on an Audit of Financial  
Statements Performed in Accordance with *Government Auditing Standards***

To the Board of Trustees  
Broome Street Academy Charter High School  
New York, New York

We have audited the financial statements of Broome Street Academy Charter High School ("BSA") as of and for the year ended June 30, 2012 and for the period from October 19, 2010 (inception date) to June 30, 2011, and have issued our report thereon dated October 16, 2012. 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**

Management of BSA is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered BSA'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 BSA's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of BSA's internal control over financial reporting.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting 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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified a certain deficiency in internal control over financial reporting, described as Item No. 2012-01 in the accompanying schedule of findings and recommendations that we consider to be a significant deficiency in internal control over financial reporting. 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.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether BSA'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*.

Management's written response to the significant deficiency identified in our audit has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the audit committee, the board of trustees, others within BSA, the Charter Schools Institute of the State University of New York, and the State Education Department of the University of New York and is not intended to be, and should not be, used by anyone other than these specified parties.

A handwritten signature in black ink that reads "McGladrey LLP". The signature is written in a cursive, flowing style.

New York, New York  
October 16, 2012

## Broome Street Academy Charter High School

### Schedule of Findings and Recommendations

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#### 2012-01. Accounting and Reporting of Leases, Compensated Absences and In-Kind Contributions

##### Criteria

- Accounting Standards Codification ("ASC") 840, *Leases*, requires, among others, recognition of rental expenses on a straight-line basis.
- ASC 710, *Compensation – General*, requires, among others, recognition of liability for compensated absences of employees.
- ASC 958-605, *Not-for-Profit Entities Revenue Recognition*, requires, among others, recognition of gifts in kind.

##### Condition

We noted that deferred lease obligation, accrued vacation and in-kind contributions were not recognized in the trial balance and draft financial statements initially provided for our audit.

When brought to their attention, management made the necessary adjustments to their accounting records and corrected the 2012 financial statements of BSA to properly recognize the deferred lease obligation and accrued vacation at June 30, 2012, as well as the in-kind contributions received during the year.

##### Cause and Effect

Fiscal year 2012 is BSA's first full year of operation and certain items that are required to be recognized under generally accepted accounting principles were inadvertently missed during the year-end financial accounting and reporting close process. While this deficiency has no effect on financial operating controls, if left uncorrected, it would result in the 2012 financial statements being misstated.

##### Recommendation

Going forward, we recommend that management enhance its review of the material financial transactions and activities of BSA to ensure that these are properly recognized and/or disclosed in the financial statements and supporting books of accounts.

##### Management's Response

*Deferred lease obligation in the amount of \$96,000.* Although BSA's lease situation is somewhat unique, as it leases space from a related entity, we are in agreement with this finding and have used a straight-line schedule of the five-year lease obligation to make the recommended adjustment to the 2012 books. Going forward, we will rely on this schedule (which we have reviewed with our auditors) to make annual accruals of deferred lease obligations to ensure that we are consistently applying the recommended treatment in future years.

*Accrued vacation of \$100,097.* In the initial preparation of the financial statements, the vacation accrual was only prepared for office staff who have flexibility over when their vacation time is used. We are in agreement with this finding that, despite the fact that faculty are required to take their vacation in the following fiscal year, the cost for that vacation should be accrued into the current year, and we have made the recommended adjustment to our 2012 financial statements. We have incorporated the accrual of faculty leave into our annual closing process to ensure that we are consistently applying the recommended treatment in future years.

*In-kind contributions of \$29,714.* At the time that the audit commenced, the information needed to determine the amount of goods received in kind was not available. During the time when the audit was being conducted, this information became available. Going forward, the Development Department will provide the Finance Department with a monthly listing of goods and/or professional services contributed on an in-kind basis to ensure that this information is current and complete at year-end.

**Corrective Action Plan For Findings From 2012 Financial Audit**

- Deferred lease obligation in the amount of \$96,000

Although the BSA's lease situation is somewhat unique, as it leases space from a related entity, we are in agreement with this finding and have used a straightline schedule of the 5 year lease obligation to make the recommended adjustment to the 2012 books. Going forward, we will rely on this schedule (which we have reviewed with our auditors) to make annual accruals of deferred lease obligations to ensure that we are consistently applying the recommended treatment in future years.

- Accrued vacation of \$100,097

In the initial preparation of the financial statements, the vacation accrual was only prepared for office staff who have flexibility over when their vacation time is used. We are in agreement with this finding that, despite the fact that faculty are required to take their vacation in the following fiscal year, the cost for that vacation should be accrued into the current year, and we have made the recommended adjustment to our 2012 financial statements. We have incorporated the accrual of faculty leave into our annual closing process to ensure that we are consistently applying the recommended treatment in future years.

- In-kind contributions of \$29,714

At the time that the audit commenced, the information needed to determine the amount of goods received in-kind was not available. During the time when the audit was being conducted, this information became available. Going forward, the Development Department will provide the Finance Department with a monthly listing of goods and/or professional services contributed on an in-kind basis to ensure that this information is current and complete at year end.