

**Bedford Stuyvesant New Beginnings Charter School**

Financial Statements

June 30, 2018 and 2017

## Independent Auditors' Report

### **Board of Trustees Bedford Stuyvesant New Beginnings Charter School**

We have audited the accompanying financial statements of Bedford Stuyvesant New Beginnings Charter School (the "School"), which comprise the statements of financial position as of June 30, 2018 and 2017, and the related statements of activities and cash flows for the years then ended, and the statement of functional expenses for the year ended June 30, 2018, and the related notes to the financial statements.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the School as of June 30, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

***Report on Summarized Comparative Information***

We have previously audited the School's 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 3, 2017. In our opinion, the summarized comparative statement of functional expenses presented herein for the year ended June 30, 2017 is consistent, in all material respects, with the audited financial statements from which it was derived.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 5, 2018, on our consideration of the School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the School's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control over financial reporting and compliance.

*PKF O'Connor Davies, LLP*

Harrison, New York  
October 5, 2018

# Bedford Stuyvesant New Beginnings Charter School

## Statements of Financial Position

	June 30,	
	<u>2018</u>	<u>2017</u>
<b>ASSETS</b>		
Current Assets		
Cash and cash equivalents	\$ 1,464,026	\$ 1,443,534
Grants and contracts receivable	593,184	627,217
Prepaid expenses and other current assets	<u>147,809</u>	<u>283,758</u>
Total Current Assets	2,205,019	2,354,509
Property and equipment, net	1,766,568	1,813,909
Restricted cash	75,389	75,313
Security deposits	<u>79,845</u>	<u>79,845</u>
	<u>\$ 4,126,821</u>	<u>\$ 4,323,576</u>
<b>LIABILITIES AND NET ASSETS</b>		
Current Liabilities		
Accounts payable and accrued expenses	\$ 182,545	\$ 45,801
Accrued payroll and payroll taxes	454,748	384,670
Refundable advances	<u>-</u>	<u>17,416</u>
Total Current Liabilities	637,293	447,887
Deferred rent	<u>3,305,903</u>	<u>3,121,556</u>
Total Liabilities	3,943,196	3,569,443
Net assets, unrestricted	<u>183,625</u>	<u>754,133</u>
	<u>\$ 4,126,821</u>	<u>\$ 4,323,576</u>

## Bedford Stuyvesant New Beginnings Charter School

### Statements of Activities

	Year Ended June 30,	
	2018	2017
<b>REVENUE AND SUPPORT</b>		
State and local per pupil operating revenue	\$ 11,638,551	\$ 10,978,722
State and local per pupil facilities funding	613,185	298,775
Federal grants	554,978	518,020
State and city grants	204,041	323,914
Contributions and private grants	29,697	150
After school program	50,904	53,513
In-kind donation	5,880	-
Other income	5,574	19,240
Total Revenue and Support	13,102,810	12,192,334
<b>EXPENSES</b>		
Program Services		
Regular education	8,083,253	6,960,991
Special education	2,497,105	2,076,678
Supplementary education	438,213	167,557
Total Program Services	11,018,571	9,205,226
Supporting Services		
Management and general	2,422,196	2,446,260
Fundraising	232,551	296,756
Total Expenses	13,673,318	11,948,242
Change in Net Assets	(570,508)	244,092
<b>NET ASSETS, UNRESTRICTED</b>		
Beginning of year	754,133	510,041
End of year	\$ 183,625	\$ 754,133

**Bedford Stuyvesant New Beginnings Charter School**

Statement of Functional Expenses

Year Ended June 30, 2018

(with summarized totals for the year ended June 30, 2017)

	2018				2017			
	Program Services			Total	Management and		Total	
Regular Education	Special Education	Supplementary Education	General		Fundraising	Total		
Salaries and wages	\$ 4,942,150	\$ 1,524,401	\$ 118,839	\$ 6,585,390	\$ 1,274,379	\$ 27,760	\$ 7,887,529	\$ 6,785,419
Employee benefits and payroll taxes	1,124,483	346,846	27,039	1,498,368	289,962	6,316	1,794,646	1,435,285
Audit and accounting fees	-	-	-	-	22,250	-	22,250	22,250
Legal fees	-	-	-	-	863	-	863	40,617
Marketing and recruiting	45,272	22,476	-	67,748	34,911	3,491	106,150	90,072
Financial management services	-	-	-	-	67,769	-	67,769	130,750
Contractual services	-	-	-	-	-	-	-	1,264
Consulting	12,757	3,935	266,852	283,544	160,687	150,055	594,286	484,286
Leased equipment	-	-	-	-	44,621	451	45,072	23,597
Student food services	1,818	548	-	2,366	468	-	2,834	15,206
Staff lunches	44,888	13,521	-	58,409	11,550	-	69,959	47,985
Insurance	49,205	14,821	-	64,026	12,659	-	76,685	75,802
Utilities	100,028	30,854	2,405	133,287	26,355	-	159,642	84,574
Rent	825,820	254,723	19,858	1,100,401	217,585	-	1,317,986	1,318,556
Postage and shipping	-	-	-	-	9,017	475	9,492	6,594
Classroom supplies	97,214	29,746	-	126,960	108	-	127,068	73,367
Instructional materials	152,196	46,573	-	198,769	-	-	198,769	222,855
Professional development	79,163	24,224	-	103,387	51,182	-	154,569	99,474
Repairs and maintenance	160,443	49,296	3,220	212,959	42,112	-	255,071	214,670
Office expense	3,555	1,071	-	4,626	55,756	43,350	103,732	89,475
Telephone and internet services	23,346	7,032	-	30,378	5,880	128	36,386	45,451
Information technology	95,785	28,851	-	124,636	24,119	525	149,280	152,153
Student transportation	53,247	16,294	-	69,541	-	-	69,541	64,565
Dues and subscriptions	54,562	16,434	-	70,996	14,039	-	85,035	52,133
Depreciation and amortization	216,498	65,211	-	281,709	55,703	-	337,412	368,744
Miscellaneous	823	248	-	1,071	221	-	1,292	3,098
<b>Total Expenses</b>	<b>\$ 8,083,253</b>	<b>\$ 2,497,105</b>	<b>\$ 438,213</b>	<b>\$ 11,018,571</b>	<b>\$ 2,422,196</b>	<b>\$ 232,551</b>	<b>\$ 13,673,318</b>	<b>\$ 11,948,242</b>

**Bedford Stuyvesant New Beginnings Charter School**

Statements of Cash Flows

	Year Ended June 30,	
	2018	2017
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ (570,508)	\$ 244,092
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation and amortization	337,412	368,744
Deferred rent	184,347	184,345
Changes in operating assets and liabilities		
Grants and contracts receivable	34,033	(214,657)
Prepaid expenses and other current assets	135,949	(275,533)
Accounts payable and accrued expenses	136,744	(219,856)
Accrued payroll and payroll taxes	70,078	28,933
Refundable advances	<u>(17,416)</u>	<u>(4,849)</u>
Net Cash from Operating Activities	<u>310,639</u>	<u>111,219</u>
 <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of property and equipment	(290,071)	(282,411)
Restricted cash	<u>(76)</u>	<u>(75)</u>
Net Cash from Investing Activities	<u>(290,147)</u>	<u>(282,486)</u>
 Net Change in Cash and Cash Equivalents	20,492	(171,267)
 <b>CASH AND CASH EQUIVALENTS</b>		
Beginning of year	<u>1,443,534</u>	<u>1,614,801</u>
 End of year	<u>\$ 1,464,026</u>	<u>\$ 1,443,534</u>

# Bedford Stuyvesant New Beginnings Charter School

Notes to Financial Statements  
June 30, 2018 and 2017

## 1. Organization and Tax Status

Bedford Stuyvesant New Beginnings Charter School (the "School") is a New York State, not-for-profit educational corporation that was incorporated to operate a charter school pursuant to Article 56 of the Education Law of the State of New York. The School was granted a provisional charter on January 12, 2010 valid for a term of five years and renewable upon expiration by the Board of Regents of the University of the State of New York. The School renewed its charter for an additional five-year term expiring June 30, 2023. The School's mission is to provide an all-inclusive environment that promotes diverse learning for all students and promotes academic and civic achievements, ranging from the fundamentals of fine art, music, theatre, physical education, and technology. Classes commenced in Brooklyn, New York in September 2010 and the School provided education to approximately 669 students in kindergarten through eighth grade during the 2017-2018 academic year.

The New York City Department of Education provides transportation directly to some of the School's students. Such costs are not included in these financial statements. The School provides universal free lunch to all of the School's scholars.

Except for taxes that may be due for unrelated business income, the School is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and from state and local income taxes under comparable laws.

## 2. Summary of Significant Accounting Policies

### ***Basis of Presentation and Use of Estimates***

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"), which 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. Accordingly, actual results could differ from those estimates.

### ***Net Asset Presentation***

Resources for various purposes are classified for accounting and reporting purposes into net asset categories established according to nature and purpose as follows:

*Unrestricted* - consist of resources available for the general support of the School's operations. Unrestricted net assets may be used at the discretion of the School's management and Board of Trustees.

## Bedford Stuyvesant New Beginnings Charter School

Notes to Financial Statements  
June 30, 2018 and 2017

### 2. Summary of Significant Accounting Policies *(continued)*

#### ***Net Asset Presentation (continued)***

*Temporarily Restricted* - represent amounts restricted by donors for specific activities of the School or to be used at some future date. The School records contributions as temporarily restricted if they are received with donor stipulations that limit their use either through purpose or time restrictions. When a donor restriction expires, that is, when a time restriction ends or a purpose restriction is fulfilled, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions. However, when restrictions on donor-restricted contributions are met in the same accounting period in which they are received, such amounts are reported as unrestricted net assets.

*Permanently Restricted* - consist of net assets that are subject to donor imposed restrictions that require the School to maintain them permanently, including funds that are subject to restrictions of gift instruments requiring that the principal be invested in perpetuity and the income be used for specific or general purposes. Income and gains earned on endowment fund investments are available to be used in the unrestricted or temporarily restricted net asset classes based upon stipulations by the donors.

The School had no temporarily or permanently restricted net assets at June 30, 2018 and 2017.

#### ***Cash and Cash Equivalents***

Cash and cash equivalents include cash balances held in bank accounts and highly liquid debt instruments with maturities of three months or less at the time of purchase.

#### ***Restricted Cash***

Under the provisions of its charter, the School established an escrow account to pay for legal and audit expenses that would be associated with a dissolution, should it occur.

#### ***Property and Equipment***

The School follows the practice of capitalizing all expenditures for property and equipment with costs in excess of \$1,000 and a useful life in excess of one year. Leasehold improvements are amortized over the shorter of the term of the lease, inclusive of all renewal periods, which are reasonably assured, or the estimated useful life of the asset. Purchased property and equipment are recorded at cost at the date of acquisition. Minor costs of maintenance and repairs are expensed as incurred. All property and equipment purchased with government funding is capitalized, unless the government agency retains legal title to such assets, in which case such assets are expensed as incurred.

## Bedford Stuyvesant New Beginnings Charter School

Notes to Financial Statements  
June 30, 2018 and 2017

### 2. Summary of Significant Accounting Policies *(continued)*

#### ***Property and Equipment (continued)***

Depreciation and amortization is recognized on the straight-line method over the estimated useful lives of such assets as follows:

Computers and equipment	3 - 5 years
Furniture and fixtures	7 years
Software	3 years

Property and equipment are reviewed for impairment if the use of the asset significantly changes or another indicator of possible impairment is identified. If the carrying amount for the asset is not recoverable, the asset is written down to its fair value. There were no asset impairments for the years ended June 30, 2018 and 2017.

#### ***Refundable Advances***

The School records certain government operating revenue as refundable advances until related services are performed, at which time they are recognized as revenue.

#### ***Line of Credit***

On April 23, 2012, the School entered into an unsecured \$50,000 line of credit agreement with Capital One Bank to provide working capital. The line has no expiration date and bears interest at the Wall Street Journal Prime Rate plus 5.75%. Interest is payable on a monthly basis. There were no outstanding balances under the line of credit as of June 30, 2018 and 2017.

#### ***Deferred Rent***

The School records its rent in accordance with U.S. GAAP whereby all rental payments, including fixed rent increases, are recognized on a straight-line basis. The difference between the straight-line rent expense and the required lease payments, as well as any unamortized lease incentives, is reflected in deferred rent in the accompanying statement of financial position.

#### ***Revenue and Support***

Revenue from the state and local governments resulting from the School's charter status, and based on the number of students enrolled, is recorded when services are performed in accordance with the charter agreement. Federal and other state and local funds are recorded when expenditures are incurred and billable to the government agency.

Contributions are recognized when the donor makes a promise to give to the School that is, in substance, unconditional. Grants and other contributions of cash are reported as temporarily restricted support if they are received with donor stipulations. Restricted contributions and grants that are made to support the School's current year activities are recorded as unrestricted revenue. Contributions of assets other than cash are recorded at their estimated fair value at the date of donation.

## **Bedford Stuyvesant New Beginnings Charter School**

Notes to Financial Statements  
June 30, 2018 and 2017

### **2. Summary of Significant Accounting Policies (*continued*)**

#### ***In-Kind Donation***

Donated goods are recorded at their estimated fair value when received. For the year ended June 30, 2018, the School received a donation of computer tablets for students and mirrored wall decor valued at \$5,880.

#### ***Marketing and Recruitment***

Marketing and recruitment costs are expensed as incurred for staff and student recruitment. Marketing and recruitment expense for the years ended June 30, 2018 and 2017 was \$106,150 and \$90,072.

#### ***Functional Expense Allocation***

The majority of expenses can generally be directly identified with the program or supporting service to which they relate and are charged accordingly. Other expenses by function have been allocated among program and supporting services classifications on the basis of periodic time and expense studies and other basis as determined by management of the School to be appropriate.

#### ***Accounting for Uncertainty in Income Taxes***

The School recognizes the effect of income tax positions only if those positions are more likely than not to be sustained. Management has determined that the School had no uncertain tax positions that would require financial statement recognition or disclosure. The School is no longer subject to examinations by the applicable taxing jurisdictions for years prior to June 30, 2015.

#### ***Prior Year Summarized Comparative Financial Information***

The statement of functional expenses include prior-year summarized comparative information in total but not by function. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. GAAP. Accordingly, such information should be read in conjunction with the School's statement of functional expenses for the year ended June 30, 2017, from which the summarized information was derived.

#### ***Subsequent Events Evaluation by Management***

Management has evaluated subsequent events for disclosure and/or recognition in the financial statements through the date that the financial statements were available to be issued, which date is October 5, 2018.

## Bedford Stuyvesant New Beginnings Charter School

Notes to Financial Statements  
June 30, 2018 and 2017

### 3. Grants and Contracts Receivable

Grants and contracts receivable consist of federal, state, and city entitlements and grants. The School expects to collect these receivables within one year and has not provided an allowance for doubtful accounts.

### 4. Property and Equipment

Property and equipment consists of the following at June 30:

	<u>2018</u>	<u>2017</u>
Computers and equipment	\$ 900,644	\$ 848,052
Furniture and fixtures	408,380	405,901
Leasehold improvements	2,374,337	2,139,337
Software	<u>81,936</u>	<u>81,936</u>
	3,765,297	3,475,226
Accumulated depreciation and amortization	<u>(1,998,729)</u>	<u>(1,661,317)</u>
	<u>\$ 1,766,568</u>	<u>\$ 1,813,909</u>

### 5. Employee Benefit Plan

The School maintains a pension plan qualified under Internal Revenue Code 401(k), for the benefit of its eligible employees. Under the plan, the School provided matching contributions up to 5% of the participant's annual compensation. Employee match for the years ended June 30, 2018 and 2017 amounted to \$143,793 and \$85,880.

### 6. Concentration of Credit Risk

Financial instruments that potentially subject the School to concentrations of credit and market risk consist principally of cash and cash equivalents on deposit with financial institutions, which from time to time may exceed the Federal Deposit Insurance Corporation ("FDIC") limit. The School does not believe that a significant risk of loss due to the failure of a financial institution presently exists. As of June 30, 2018 and 2017, approximately \$1,289,000 and \$1,268,000 of cash was maintained with an institution in excess of FDIC limits.

### 7. Concentration of Revenue and Support

The School receives a substantial portion of its revenue and support from the New York City Department of Education. For the years ended June 30, 2018 and 2017, the School received approximately 94% and 93% of total revenue and support from the New York City Department of Education. If the charter school laws were modified, reducing or eliminating these revenues, the School's finances could be materially adversely affected.

## Bedford Stuyvesant New Beginnings Charter School

Notes to Financial Statements  
June 30, 2018 and 2017

### 8. Commitment

On September 1, 2010, the School entered into a non-cancelable operating lease for office and classroom space expiring on June 30, 2030, with an option to renew the lease for an additional ten years. The lease provides for rent escalations and the School is responsible for utilities, real estate taxes, and other operating expenses. The School is receiving a partial rent credit for the first 10 years of the lease. The School outlined a detailed 10 year capital improvement plan of approximately \$4,900,000 for renovation projects to both the interior and exterior of the building.

Future minimum lease payments are as follows for the years ended June 30,:

2019	\$ 1,133,640
2020	1,133,640
2021	1,605,186
2022	1,605,186
2023	1,605,186
Thereafter	<u>12,038,895</u>
	<u>\$ 19,121,733</u>

Rent expense for the years ended June 30, 2018 and 2017 was \$1,317,986 and \$1,318,556.

### 9. Contingency

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

\*\*\*\*\*

**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**

**Independent Auditors' Report**

**Board of Trustees  
Bedford Stuyvesant New Beginnings Charter School**

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Bedford Stuyvesant New Beginnings Charter School (the "School"), which comprise the statement of financial position as of June 30, 2018, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 5, 2018.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the School's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control. Accordingly, we do not express an opinion on the effectiveness of the School's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the School's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*PKF O'Connor Davies, LLP*

Harrison, New York  
October 5, 2018