

Brooklyn Prospect Charter School

Financial Statements

June 30, 2020 and 2019

Independent Auditors' Report

Board of Trustees
Brooklyn Prospect Charter School

Report on the Financial Statements

We have audited the accompanying financial statements of Brooklyn Prospect Charter School (the "School"), which comprise the statements of financial position as of June 30, 2020 and 2019, and the related statements of activities, functional expenses, and cash flows for the years then ended, 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, 2020 and 2019, 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 Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The schedules of activities and functional expenses by charter for the year ended June 30, 2020 on pages 18 through 21 are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 28, 2020, 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 28, 2020

Brooklyn Prospect Charter School

Statements of Financial Position

	June 30,	
	<u>2020</u>	<u>2019</u>
ASSETS		
Current Assets		
Cash	\$ 4,336,045	\$ 1,038,270
Grants and contract receivables	1,058,353	513,481
Due from related parties	165,940	308,377
Prepaid expenses	<u>142,736</u>	<u>140,954</u>
Total Current Assets	5,703,074	2,001,082
Property and equipment, net	4,472,430	4,887,391
Restricted cash	151,586	151,275
Security deposits	<u>1,534,497</u>	<u>1,517,000</u>
	<u>\$ 11,861,587</u>	<u>\$ 8,556,748</u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable and accrued expenses	\$ 253,925	\$ 664,830
Deferred rent, current portion	1,254,321	396,409
Refundable advances	<u>30,291</u>	<u>24,603</u>
Total Current Liabilities	1,538,537	1,085,842
Paycheck Protection Program loan payable	3,573,939	-
Deferred rent	<u>651,980</u>	<u>2,295,600</u>
Total Liabilities	5,764,456	3,381,442
Net assets, without donor restrictions	<u>6,097,131</u>	<u>5,175,306</u>
	<u>\$ 11,861,587</u>	<u>\$ 8,556,748</u>

See notes to financial statements

Brooklyn Prospect Charter School

Statements of Activities

	Year Ended June 30,	
	2020	2019
OPERATING REVENUE		
State and local per pupil operating revenue		
General education	\$ 23,847,710	\$ 22,737,775
Special education	3,657,033	3,207,236
Facilities	4,308,645	3,079,826
Federal grants	473,921	300,059
Federal E-Rate and IDEA	231,490	151,986
State and city grants	1,041,897	1,011,441
Total Operating Revenue	33,560,696	30,488,323
EXPENSES		
Program Services		
Regular education	24,415,973	20,126,401
Special education	6,224,338	5,030,718
Total Program Services	30,640,311	25,157,119
Supporting Services		
Management and general	5,190,274	5,776,464
Fundraising	115,561	356,028
Total Expenses	35,946,146	31,289,611
 (Deficit) from Operations	 (2,385,450)	 (801,288)
SUPPORT AND OTHER REVENUE		
Contributions from related party	263,606	296,344
Donated services	233,709	62,062
After school program	216,635	376,166
Field trips and events	64,178	142,991
Gain on transfer of leases to related party	2,177,805	483,431
Other income	351,342	212,306
Total Support and Other Revenue	3,307,275	1,573,300
 Change in Net Assets	 921,825	 772,012
NET ASSETS		
Beginning of year	5,175,306	4,403,294
 End of year	 \$ 6,097,131	 \$ 5,175,306

See notes to financial statements

Brooklyn Prospect Charter School

Statement of Functional Expenses
Year Ended June 30, 2020

	No. of Positions	Program Services			Supporting Services		Total
		Regular Education	Special Education	Total	Management and General	Fundraising	
Personnel Services Costs							
Administrative staff personnel	27	\$ 1,177,877	\$ 294,469	\$ 1,472,346	\$ 602,773	\$ 25,635	\$ 2,100,754
Instructional personnel	196	11,130,193	2,782,548	13,912,741	-	-	13,912,741
Non-instructional personnel	66	1,381,599	345,399	1,726,998	116,206	-	1,843,204
Total Salaries and Staff	<u>289</u>	13,689,669	3,422,416	17,112,085	718,979	25,635	17,856,699
Employee benefits and payroll taxes		3,139,665	784,916	3,924,581	165,134	5,890	4,095,605
Office expenses		292,132	73,033	365,165	71,174	461	436,800
Accounting and auditing		-	-	-	72,501	-	72,501
Legal fees		-	-	-	21,958	-	21,958
Donated legal services		-	-	-	233,709	-	233,709
Payroll service		-	-	-	101,820	-	101,820
General and administrative consultants		86,247	21,562	107,809	29,954	-	137,763
Management fee		1,058,334	264,583	1,322,917	2,529,105	38,909	3,890,931
Other professional fees		135,855	154,311	290,166	8,071	62	298,299
Professional development		121,679	30,420	152,099	6,363	227	158,689
Student and staff meals		9,637	2,409	12,046	-	-	12,046
Student and staff special events		153,131	38,282	191,413	4,271	153	195,837
Marketing and recruiting		-	-	-	8,796	-	8,796
Parent teacher organization		-	-	-	-	34,526	34,526
Curriculum and classroom		617,885	154,471	772,356	-	-	772,356
Insurance		-	-	-	124,414	-	124,414
Facilities expense		5,002,478	1,250,619	6,253,097	280,624	9,495	6,543,216
Technology		87,644	21,912	109,556	12,931	165	122,652
Depreciation and amortization		-	-	-	786,046	-	786,046
Miscellaneous		21,617	5,404	27,021	14,424	38	41,483
Total Expenses		<u>\$ 24,415,973</u>	<u>\$ 6,224,338</u>	<u>\$ 30,640,311</u>	<u>\$ 5,190,274</u>	<u>\$ 115,561</u>	<u>\$ 35,946,146</u>

Brooklyn Prospect Charter School

Statement of Functional Expenses
Year Ended June 30, 2019

	No. of Positions	Program Services			Supporting Services		Total
		Regular Education	Special Education	Total	Management and General	Fundraising	
Personnel Services Costs							
Administrative staff personnel	28	\$ 1,059,478	\$ 264,870	\$ 1,324,348	\$ 728,966	\$ 133,496	\$ 2,186,810
Instructional personnel	177	9,624,428	2,406,107	12,030,535	-	-	12,030,535
Non-instructional personnel	40	1,217,069	304,267	1,521,336	457,107	-	1,978,443
Total Salaries and Staff	<u>245</u>	11,900,975	2,975,244	14,876,219	1,186,073	133,496	16,195,788
Employee benefits and payroll taxes		2,671,545	649,835	3,321,380	288,818	-	3,610,198
Office expenses		282,439	69,242	351,681	61,438	3,981	417,100
Accounting and auditing		-	-	-	18,274	-	18,274
Legal fees		-	-	-	12,609	-	12,609
Donated legal services		-	-	-	62,062	-	62,062
Payroll service		-	-	-	91,215	-	91,215
General and administrative consultants		42,698	10,675	53,373	71,333	-	124,706
Management fee		820,415	205,104	1,025,519	2,221,958	170,920	3,418,397
Other professional fees		185,128	87,304	272,432	8,046	-	280,478
Professional development		128,832	31,337	160,169	13,929	-	174,098
Student and staff meals		11,018	2,755	13,773	-	-	13,773
Student and staff special events		191,044	47,226	238,270	8,562	-	246,832
Marketing and recruiting		-	-	-	717	-	717
Parent teacher organization		-	-	-	-	47,631	47,631
Curriculum and classroom		736,766	184,192	920,958	-	-	920,958
Insurance		-	-	-	111,909	-	111,909
Facilities expense		3,069,585	746,897	3,816,482	704,381	-	4,520,863
Technology		69,552	16,917	86,469	18,448	-	104,917
Depreciation and amortization		-	-	-	759,959	-	759,959
Bad debt		-	-	-	120,461	-	120,461
Miscellaneous		16,404	3,990	20,394	16,272	-	36,666
Total Expenses		<u>\$ 20,126,401</u>	<u>\$ 5,030,718</u>	<u>\$ 25,157,119</u>	<u>\$ 5,776,464</u>	<u>\$ 356,028</u>	<u>\$ 31,289,611</u>

Brooklyn Prospect Charter School

Statements of Cash Flows

	Year Ended June 30,	
	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 921,825	\$ 772,012
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation and amortization	786,046	759,959
Deferred rent	1,392,097	341,853
Gain on transfer of leases to related party	(2,177,805)	(483,431)
Bad debt	-	120,461
Changes in operating assets and liabilities		
Grants and contract receivables	(544,872)	442,819
Prepaid expenses and other current assets	(1,782)	(547)
Security deposits	(17,497)	(400,000)
Due from related parties	142,437	(308,377)
Accounts payable and accrued expenses	(410,905)	430,515
Refundable advances	5,688	230
Due to related party	-	(2,986)
Net Cash from Operating Activities	95,232	1,672,508
CASH FLOWS FROM INVESTING ACTIVITY		
Purchases of property and equipment	(371,085)	(950,185)
CASH FLOWS FROM FINANCING ACTIVITY		
Paycheck Protection Program loan proceeds	3,573,939	-
Net Change in Cash and Restricted Cash	3,298,086	722,323
CASH AND RESTRICTED CASH		
Beginning of year	1,189,545	467,222
End of year	\$ 4,487,631	\$ 1,189,545
The following table provides a reconciliation of cash and restricted cash within the statements of financial position:		
Cash	\$ 4,336,045	\$ 1,038,270
Restricted cash	151,586	151,275
	\$ 4,487,631	\$ 1,189,545

See notes to financial statements

Brooklyn Prospect Charter School

Notes to Financial Statements
June 30, 2020 and 2019

1. Organization and Tax Status

Brooklyn Prospect Charter School (the "School") is an educational corporation that operates three charter schools in the borough of Brooklyn, New York. On July 28, 2008, the Board of Regents of the University of the State of New York (the "Board of Regents") granted the School a provisional charter ("CSD 15") valid for a term of five years and renewable upon expiration. On June 4, 2014, the Board of Regents granted the School a second provisional charter ("CSD 13") valid for a term of five years and renewable upon expiration. In July 2019, the Board of Regents granted the School a third provisional charter ("CSD 15.2") valid for a term of five years and renewable upon expiration. On August 1, 2019, the Board of Regents granted the School a full-term renewal for CSD 15 and CSD 13 for a period of five years effective until July 31, 2024. The School's mission is to be a K through 12 college preparatory community where excellent teachers prepare a diverse student body to have a positive impact on society and a lifelong passion for learning. In the 2019-2020 academic year, the School operated classes for approximately 1,460 students in grades kindergarten through twelfth grade.

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.

Adoption of New Accounting Principle

Recognition of Contributions

Effective July 1, 2019, the School adopted Accounting Standards Update ("ASU") 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This guidance provides a framework for evaluating whether contributions and grants should be accounted for as exchange transactions or as nonexchange transactions. Analysis of various provisions of this standard resulted in no significant changes in the way the School recognizes contributions and grants, and therefore no changes to the previously issued audited financial statements were required on a retrospective basis.

Brooklyn Prospect Charter School

Notes to Financial Statements
June 30, 2020 and 2019

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

Adoption of New Accounting Policies

Restricted Cash

In November 2016, the Financial Accounting Standards Board issued ASU 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash. ASU 2016-18 requires significant changes regarding how restricted cash is classified and presented on the statement of cash flows. On July 1, 2019, the School adopted the new guidance regarding the presentation and classification of restricted cash. The guidance requires the School to 1) include restricted cash and restricted cash equivalents in the cash and cash equivalent balances on the statements of cash flows, 2) provide a reconciliation between the statements of financial position and the statements of cash flows when more than one line item for cash, cash equivalents, restricted cash, and restricted cash equivalents is presented on the statements of financial position, 3) eliminate the presentation of transfers between restricted cash and cash, and 4) include disclosures about the nature of the restrictions for material balances. Adoption of the ASU resulted in a change in the accounting for restricted cash on the statements of cash flows.

Net Assets Presentation

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

Net assets without donor restrictions - consist of resources available for the general support of the School's operations. Net assets without donor restrictions may be used at the discretion of the School's management and/or the Board of Trustees.

Net assets with donor restrictions – represents amounts restricted by donors for specific activities of the School or to be used at a future date. The School records contributions as net assets with donor restrictions 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, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions. The School had no net assets with donor restrictions as of June 30, 2019 and 2018.

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.

Brooklyn Prospect Charter School

Notes to Financial Statements
June 30, 2020 and 2019

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

Property and Equipment

The School follows the practice of capitalizing all expenditures for property and equipment with costs in excess of \$3,000 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.

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

Computers and equipment	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, 2020 and 2019.

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.

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 net assets with donor restrictions 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 net assets without donor restrictions. Contributions of assets other than cash are recorded at their estimated fair value at the date of donation.

Donated Services

Donated services are recognized as contributions in accordance with U.S. GAAP if the services create or enhance non-financial assets, require specialized skills, are performed by people with those skills, and would otherwise be purchased by the School, and are measureable.

Brooklyn Prospect Charter School

Notes to Financial Statements
June 30, 2020 and 2019

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

Marketing and Recruiting

Marketing and recruiting costs are expensed as incurred. Marketing and recruiting costs for the years ended June 30, 2020 and 2019 amounted to \$8,796 and \$717.

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, 2017.

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 28, 2020.

3. Grants and Contract Receivables

Grants and contract receivables consists of federal, state, 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 consisted of the following as of June 30:

	<u>2020</u>	<u>2019</u>
Computers and equipment	\$ 1,545,414	\$ 2,100,404
Furniture and fixtures	1,735,832	1,694,496
Software	33,744	33,744
Leasehold improvements	5,239,802	5,153,426
Construction-in-progress	<u>15,949</u>	<u>-</u>
	8,570,741	8,982,070
Accumulated depreciation and amortization	<u>(4,098,311)</u>	<u>(4,094,679)</u>
	<u>\$ 4,472,430</u>	<u>\$ 4,887,391</u>

Brooklyn Prospect Charter School

Notes to Financial Statements
June 30, 2020 and 2019

4. Property and Equipment (*continued*)

For the year ended June 30, 2020, the School disposed of fully depreciated property and equipment totaling \$782,414.

Construction-in-progress at June 30, 2020 is comprised of architect fees and other soft costs for the planning, development, and construction of the middle school's permanent facility.

5. Liquidity and Availability of Financial Assets

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use within one year of the statement of financial position date, are comprised of the following at June 30:

	2020	2019
Cash	\$ 4,336,045	\$ 1,038,270
Grants and contracts receivable	1,058,353	513,481
Due from related parties	165,940	308,377
	<u>\$ 5,560,338</u>	<u>\$ 1,860,128</u>

As part of the School's liquidity management plan, the status of grants and contracts receivable is monitored on a regularly any excess cash is held in savings accounts and other liquid instruments until it is required for operational use.

6. Related Party Transaction (not disclosed elsewhere)

The School is an affiliate of Prospect Schools, Inc. ("Prospect"), a New York State not-for-profit corporation, through common management. Prospect was originally organized to provide financial support and other services to the School. Effective July 1, 2018, Prospect amended its legal purpose to act as a charter management organization and provide support as outline in the agreement. The School entered into a five year agreement with Prospect effective July 1, 2018 which calls for Prospect to oversee the School in their development and implementation of the educational and instruction programs; support and assist the business administration of the School; assist in the recruitment of personnel and provide human resources services; and oversee the financial services and reports for the School. For the years end June 30, 2020 and 2019, the School paid Prospect an annual fee of 12% of the School's per pupil operating revenue, per pupil facilities revenue, federal Individuals with Disabilities Education Act revenue, and federal Titles revenue. The management fee for the years ended June 30, 2020 and 2019 amounted to \$3,890,931 and \$3,418,397.

For the years ended June 30, 2020 and 2019, the School received contributions of \$263,606 and \$296,344 from Prospect to cover specific program expenses.

Brooklyn Prospect Charter School

Notes to Financial Statements
June 30, 2020 and 2019

6. Related Party Transaction (not disclosed elsewhere) *(continued)*

The School is an affiliate of Friends of Prospect Schools, Inc. ("FOPS"), a New York State not-for-profit corporation, through common management. FOPS's purpose is to support the operation of the School by managing the School's real estate and facilities-related needs, and by raising funds and resources that will enable FOPS to provide support to the School and to enhance the experience of the School's students.

Lease agreements for one facility used by the School during fiscal 2020 and two facilities used by the School during fiscal 2019 were transferred to FOPS (see Note 12) and new sublease agreements were entered into between FOPS (sublandlord) and the School (subtenant). As a result of these transfers, unamortized deferred rent liability was written off resulting in a non-operating gain of \$2,177,805 and \$483,431 which is reported as gain on transfer of leases to related party in the statements of activities for years end June 30, 2020 and 2019.

At June 30, 2020 and 2019, the outstanding balance due from Prospect and FOPS was \$165,940 and \$308,377.

7. 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.

8. 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, 2020 and 2019, approximately \$4,237,000 and \$938,000 of cash was maintained with an institution in excess of FDIC limits.

9. 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, 2020 and 2019, the School received approximately 86% and 90% of its 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.

Brooklyn Prospect Charter School

Notes to Financial Statements
June 30, 2020 and 2019

10. 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 matched employee contributions up to 4% of the annual compensation covered under the employment arrangement with ADP Retirement Services. Total employer match for the years ended June 30, 2020 and 2019 amounted to \$561,546 and \$489,599.

11. Donated Services

One law firm provided legal services to the School at no charge. The value of these services meets the criteria for recognition in the financial statements and was recorded at a fair value of \$233,709 and \$62,062 for the years ended June 30, 2020 and 2019. The value of these services is allocated to management and general services in the accompanying statements of activities and functional expenses.

12. Commitments

Facilities

In April 2012, the School signed a lease with The Roman Catholic Church of the Immaculate Heart of Mary for its middle and high school classrooms and office space under a non-cancelable lease expiring June 30, 2032, with an option to extend the lease for an additional 10 years. Under the terms of the lease, the School paid a security deposit in the amount of \$142,000. The School moved into its permanent facility on September 1, 2012 and commenced paying rent. In June 2019, the lease agreement was transferred to FOPS (see Note 6) and a new sublease agreement between FOPS (sublandlord) and the School (subtenant) was executed effective July 1, 2019 for a period of 23 years ending on June 30, 2042.

In May 2013, the School signed a lease with The Sisters of Saint Joseph for its elementary school classrooms and office space under a non-cancelable lease expiring June 30, 2023, with two options to extend the lease for an additional five years each. Under the terms of the lease, the School paid a security deposit in the amount of \$75,000. The School moved into this new facility on July 1, 2013 and commenced paying rent. In October 2018, the lease agreement was transferred to FOPS (see Note 6) and a new sublease agreement between FOPS (sublandlord) and the School (subtenant) was executed for a period of 15 years ending on June 30, 2033.

In August 2016, the School signed a lease with Metrotech, LLC 13 for its main office and after school activity center for its elementary students under a non-cancelable lease expiring June 30, 2034. Under this lease, the School has an option of extending the lease an additional five years. Under the terms of the lease, the School paid a security deposit in the amount of \$300,000. The School moved into this new facility on April 1, 2017 and commenced paying rent.

Brooklyn Prospect Charter School

Notes to Financial Statements
June 30, 2020 and 2019

12. Commitments (*continued*)

Facilities (continued)

In June 2015, the School signed a lease with Power Realty Partners for its classrooms and office space under a non-cancelable lease for their second middle school expiring June 30, 2037. Under this lease, the School has an option of extending the lease an additional 10 years. Under the terms of the lease, the School paid a security deposit in the amount of \$600,000. In the fall of 2016, the second middle school opened at a temporary space provided by the New York City Department of Education. The School moved into the permanent facility in the fall of 2018. In October 2018, the lease agreement was transferred to FOPS (see Note 6) and a new sublease agreement between FOPS (sublandlord) and the School (subtenant) was executed for a period of 30 years ending on June 30, 2048.

In January 2017, the School signed a lease with 160 17th Street, LLC for its classrooms, office space, and outdoor play area under a non-cancelable lease for the first middle school expiring June 30, 2038. Under this lease, the School has an option of extending the lease an additional 20 years. Under the terms of the lease, the School is liable to pay a security deposit totaling \$600,000. The School paid \$400,000 during fiscal year 2019 with the remaining balance to be paid upon the issuance of the temporary certificate of occupancy in fiscal year 2021. The School had yet to move into the facility at June 30, 2020 and expects to move in and commence rent payments in the fall of 2022.

In July 2019, the School signed a lease with Caton Avenue Realty, LLC, for additional gym and dance space of the entire first floor under a non-cancelable lease for the Windsor Terrace middle and high schools expiring June 2021. Under this lease, the School has an option of extending the lease for an additional year. The School moved into its facility during fiscal year 2020 and commenced paying rent.

In April 2020, the School signed a lease with Brooklyn Laboratory Charter School for portions of its classrooms and office space under a non-cancelable lease for the temporary location of the new middle school expiring June 30, 2022. Under the terms of the lease, the School paid a security deposit totaling \$200,000. The School moved into its facility during fiscal year 2021 and commenced paying rent.

Future minimum lease payments under the above leases are as follows for the years ending June 30:

2021	\$ 6,801,208
2022	7,628,052
2023	7,617,278
2024	7,713,005
2025	7,810,046
Thereafter	<u>85,287,284</u>
	<u>\$ 122,856,873</u>

Brooklyn Prospect Charter School

Notes to Financial Statements
June 30, 2020 and 2019

12. Commitments (*continued*)

Facilities (continued)

The School recognizes rent expense on a straight-line basis over the term of the leases. Rent expense in excess of payments is recorded as deferred rent in the accompanying statements of financial position. Facilities expense for the years ended June 30, 2020 and 2019 amounted to \$6,543,216 and \$4,520,863.

Leased Equipment

The School leases various copy machines under non-cancelable operating leases expiring in various years through 2021. Minimum future rental payments under non-cancelable operating leases for the year ending June 30, 2021 totaled \$97,683.

Equipment lease expense for the years ended June 30, 2020 and 2019 was \$194,953 and \$166,424.

13. Paycheck Protection Program Loan Payable

On May 4, 2020, the School qualified for and received a loan pursuant to the Paycheck Protection Program ("PPP"), a program implemented by the U.S. Small Business Administration ("SBA") under the Coronavirus Aid, Relief, and Economic Security Act, from a qualified PPP lender, for an aggregate principal amount of \$3,573,939 (the "PPP Loan"). The PPP Loan bears interest at a fixed rate of 0.98% per annum, with the first six months of interest deferred, has a term of five years, and is unsecured and guaranteed by the U.S. Small Business Administration. The principal amount of the PPP Loan is subject to forgiveness under the PPP upon the School's request to the extent that the PPP Loan proceeds are used to pay expenses permitted by the PPP, including payroll costs, covered rent and mortgage obligations, and covered utility payments incurred by the School. The School intends to apply for forgiveness of the PPP Loan with respect to these covered expenses. The School believes that most, if not all, of the PPP Loan will meet the requirements for debt forgiveness. To the extent that all or part of the PPP Loan is not forgiven, the School will be required to pay interest on the PPP Loan through the date principal is repaid in full or maturity date.

The SBA has stated it will review the needs certification on all loans over \$2,000,000. After the review, the SBA may determine that the School did not meet the need criteria to apply for the PPP Loan. In such a circumstance, the School may be forced to return part or all of the PPP Loan proceeds plus pay the accrued and unpaid interest. The School believes it was eligible to receive the PPP Loan proceeds.

Brooklyn Prospect Charter School

Notes to Financial Statements
June 30, 2020 and 2019

14. Risks and Uncertainties

The School's operations and financial performance may be affected by the recent COVID-19 outbreak which has spread globally and is expected to adversely affect economic conditions throughout the world. If the outbreak continues and conditions worsen, the School may experience a disruption in operations as well as a decline in revenue activities. Economic uncertainty is related to the potential reduction and/or delays in state and local per pupil operating revenue, shortfalls and variations in enrollment, and operational and other changes that could increase expenses. The outbreak may adversely affect the School's activities, financial condition, results of operations, and cash flows. Management is closely monitoring the impact of COVID-19 and believes the School is taking appropriate actions to mitigate the negative impact. However, management is unable to estimate the financial impact, if any, related to this matter.

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Brooklyn Prospect Charter School

Supplementary Information

June 30, 2020

Brooklyn Prospect Charter School

Schedule of Activities by Charter
Year Ended June 30, 2020

	CSD 15	CSD 13	CSD 15.2	Total
OPERATING REVENUE				
State and local per pupil operating revenue				
General education	\$ 8,732,858	\$ 10,748,423	\$ 4,366,429	\$ 23,847,710
Special education	1,588,336	1,274,529	794,168	3,657,033
Facilities	980,218	2,838,318	490,109	4,308,645
Federal grants	229,718	129,344	114,859	473,921
Federal E-Rate and IDEA	96,612	86,572	48,306	231,490
State and city grants	<u>460,188</u>	<u>351,615</u>	<u>230,094</u>	<u>1,041,897</u>
Total Operating Revenue	<u>12,087,930</u>	<u>15,428,801</u>	<u>6,043,965</u>	<u>33,560,696</u>
EXPENSES				
Program Services				
Regular education	8,939,150	11,006,208	4,470,615	24,415,973
Special education	<u>2,294,411</u>	<u>2,782,458</u>	<u>1,147,469</u>	<u>6,224,338</u>
Total Program Services	11,233,561	13,788,666	5,618,084	30,640,311
Supporting Services				
Management and general	1,861,677	2,402,773	925,824	5,190,274
Fundraising	<u>40,749</u>	<u>54,437</u>	<u>20,375</u>	<u>115,561</u>
Total Expenses	<u>13,135,987</u>	<u>16,245,876</u>	<u>6,564,283</u>	<u>35,946,146</u>
 (Deficit) from Operations	 (1,048,057)	 (817,075)	 (520,318)	 (2,385,450)
Contributions from related party	75,542	150,293	37,771	263,606
Donated services	86,270	104,304	43,135	233,709
After school program	27	216,595	13	216,635
Field trips and events	37,002	8,675	18,501	64,178
Gain on transfer of leases to related party	1,451,870	-	725,935	2,177,805
Other income	<u>132,242</u>	<u>154,860</u>	<u>64,240</u>	<u>351,342</u>
Total Support and Other Revenue	<u>1,782,953</u>	<u>634,727</u>	<u>889,595</u>	<u>3,307,275</u>
 Change in Net Assets	 734,896	 (182,348)	 369,277	 921,825
NET ASSETS				
Beginning of year	<u>3,424,231</u>	<u>1,751,075</u>	<u>-</u>	<u>5,175,306</u>
 End of year	 <u>\$ 4,159,127</u>	 <u>\$ 1,568,727</u>	 <u>\$ 369,277</u>	 <u>\$ 6,097,131</u>

Brooklyn Prospect Charter School

Schedule of Functional Expenses

CSD 15

Year Ended June 30, 2020

	No. of Positions	Program Services			Supporting Services		Total
		Regular Education	Special Education	Total	Management and General	Fundraising	
Personnel Services Costs							
Administrative staff personnel	12	\$ 375,910	\$ 93,977	\$ 469,887	\$ 207,381	\$ 8,105	\$ 685,373
Instructional personnel	96	4,319,222	1,079,805	5,399,027	-	-	5,399,027
Non-instructional personnel	19	<u>404,912</u>	<u>101,228</u>	<u>506,140</u>	<u>28,702</u>	-	<u>534,842</u>
Total Salaries and Staff	<u>127</u>	5,100,044	1,275,010	6,375,054	236,083	8,105	6,619,242
Employee benefits and payroll taxes		1,158,382	289,595	1,447,977	53,622	1,841	1,503,440
Office expenses		111,408	27,852	139,260	34,275	145	173,680
Accounting and auditing		-	-	-	29,998	-	29,998
Legal fees		-	-	-	8,738	-	8,738
Donated legal services		-	-	-	86,270	-	86,270
Payroll service		-	-	-	37,143	-	37,143
General and administrative consultants		20,753	5,188	25,941	7,844	-	33,785
Management fee		390,662	97,665	488,327	933,566	14,363	1,436,256
Other professional fees		50,527	72,258	122,785	3,748	21	126,554
Professional development		46,521	11,630	58,151	2,153	74	60,378
Student and staff meals		-	-	-	-	-	-
Student and staff special events		60,765	15,191	75,956	1,230	42	77,228
Marketing and recruiting		-	-	-	5,864	-	5,864
Parent teacher organization		-	-	-	-	13,398	13,398
Curriculum and classroom		260,401	65,100	325,501	-	-	325,501
Insurance		-	-	-	45,925	-	45,925
Facility expense		1,697,937	424,484	2,122,421	79,497	2,694	2,204,612
Technology		31,102	7,776	38,878	3,205	49	42,132
Depreciation and amortization		-	-	-	290,156	-	290,156
Miscellaneous		<u>10,648</u>	<u>2,662</u>	<u>13,310</u>	<u>2,360</u>	<u>17</u>	<u>15,687</u>
Total Expenses		<u>\$ 8,939,150</u>	<u>\$ 2,294,411</u>	<u>\$ 11,233,561</u>	<u>\$ 1,861,677</u>	<u>\$ 40,749</u>	<u>\$ 13,135,987</u>

See independent auditors' report

Brooklyn Prospect Charter School

Schedule of Functional Expenses

CSD 13

Year Ended June 30, 2020

	No. of Positions	Program Services			Supporting Services		Total
		Regular Education	Special Education	Total	Management and General	Fundraising	
Personnel Services Costs							
Administrative staff personnel	13	\$ 614,012	\$ 153,503	\$ 767,515	\$ 291,701	\$ 13,477	\$ 1,072,693
Instructional personnel	86	4,651,359	1,162,840	5,814,199	-	-	5,814,199
Non-instructional personnel	41	<u>774,124</u>	<u>193,530</u>	<u>967,654</u>	<u>73,109</u>	<u>-</u>	<u>1,040,763</u>
Total Salaries and Staff	<u>140</u>	6,039,495	1,509,873	7,549,368	364,810	13,477	7,927,655
Employee benefits and payroll taxes		1,402,099	350,525	1,752,624	84,692	3,129	1,840,445
Office expenses		124,568	31,142	155,710	19,706	243	175,659
Accounting and auditing		-	-	-	32,357	-	32,357
Legal fees		-	-	-	9,937	-	9,937
Donated legal services		-	-	-	104,304	-	104,304
Payroll service		-	-	-	46,106	-	46,106
General and administrative consultants		55,118	13,780	68,898	18,188	-	87,086
Management fee		472,341	118,085	590,426	1,128,756	17,365	1,736,547
Other professional fees		59,719	45,837	105,556	2,433	30	108,019
Professional development		51,792	12,948	64,740	3,128	116	67,984
Student and staff meals		9,637	2,409	12,046	-	-	12,046
Student and staff special events		61,937	15,484	77,421	2,424	90	79,935
Parent teacher organization		-	-	-	-	14,429	14,429
Curriculum and classroom		227,284	56,821	284,105	-	-	284,105
Insurance		-	-	-	55,526	-	55,526
Facility expense		2,455,582	613,895	3,069,477	161,366	5,454	3,236,297
Technology		40,991	10,248	51,239	8,123	91	59,453
Depreciation and amortization		-	-	-	350,812	-	350,812
Miscellaneous		<u>5,645</u>	<u>1,411</u>	<u>7,056</u>	<u>10,105</u>	<u>13</u>	<u>17,174</u>
Total Expenses		<u>\$ 11,006,208</u>	<u>\$ 2,782,458</u>	<u>\$ 13,788,666</u>	<u>\$ 2,402,773</u>	<u>\$ 54,437</u>	<u>\$ 16,245,876</u>

Brooklyn Prospect Charter School

Schedule of Functional Expenses
CSD 15.2
Year Ended June 30, 2020

	No. of Positions	Program Services			Supporting Services		Total
		Regular Education	Special Education	Total	Management and General	Fundraising	
Personnel Services Costs							
Administrative staff personnel	2	\$ 187,955	\$ 46,989	\$ 234,944	\$ 103,691	\$ 4,053	\$ 342,688
Instructional personnel	14	2,159,612	539,903	2,699,515	-	-	2,699,515
Non-instructional personnel	<u>6</u>	<u>202,563</u>	<u>50,641</u>	<u>253,204</u>	<u>14,395</u>	<u>-</u>	<u>267,599</u>
Total Salaries and Staff	<u><u>22</u></u>	2,550,130	637,533	3,187,663	118,086	4,053	3,309,802
Employee benefits and payroll taxes		579,184	144,796	723,980	26,820	920	751,720
Office expenses		56,156	14,039	70,195	17,193	73	87,461
Accounting and auditing		-	-	-	10,146	-	10,146
Legal fees		-	-	-	3,283	-	3,283
Donated legal services		-	-	-	43,135	-	43,135
Payroll service		-	-	-	18,571	-	18,571
General and administrative consultants		10,376	2,594	12,970	3,922	-	16,892
Management fee		195,331	48,833	244,164	466,783	7,181	718,128
Other professional fees		25,609	36,216	61,825	1,890	11	63,726
Professional development		23,366	5,842	29,208	1,082	37	30,327
Student and staff meals		-	-	-	-	-	-
Student and staff special events		30,429	7,607	38,036	617	21	38,674
Marketing and recruiting		-	-	-	2,932	-	2,932
Parent teacher organization		-	-	-	-	6,699	6,699
Curriculum and classroom		130,200	32,550	162,750	-	-	162,750
Insurance		-	-	-	22,963	-	22,963
Facility expense		848,959	212,240	1,061,199	39,761	1,347	1,102,307
Technology		15,551	3,888	19,439	1,603	25	21,067
Depreciation and amortization		-	-	-	145,078	-	145,078
Miscellaneous		<u>5,324</u>	<u>1,331</u>	<u>6,655</u>	<u>1,959</u>	<u>8</u>	<u>8,622</u>
Total Expenses		<u><u>\$ 4,470,615</u></u>	<u><u>\$ 1,147,469</u></u>	<u><u>\$ 5,618,084</u></u>	<u><u>\$ 925,824</u></u>	<u><u>\$ 20,375</u></u>	<u><u>\$ 6,564,283</u></u>

See independent auditors' report

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
Brooklyn Prospect 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 Brooklyn Prospect Charter School (the "School"), which comprise the statement of financial position as of June 30, 2020, 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 28, 2020.

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 School'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 School'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 School's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

PKF O'Connor Davies, LLP

Harrison, New York
October 28, 2020

Board of Trustees
Brooklyn Prospect Charter School

Auditors' Communication on Internal Control

In planning and performing our audit of the financial statements of Brooklyn Prospect Charter School (the "School") as of and for the year ended June 30, 2020, in accordance with auditing standards generally accepted in the United States of America, we considered the School's internal control over financial reporting ("internal control") as a basis for designing 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 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 was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies, or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified.

We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

We have other observation and recommendation that are opportunities for strengthening internal control and/or operating efficiency, presented in Addendum A to this letter.

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

PKF O'Connor Davies, LLP

Harrison, New York
October 28, 2020

Brooklyn Prospect Charter School

Addendum A

Other Observations and Recommendations for Strengthening Internal Control and/or Operating Efficiency

1. Escrow Account for Dissolution

Under the provisions of its charter, the School is required to establish an escrow account to pay for legal and audit expenses that would be associated with a dissolution should it occur. The School is required to fund the escrow account a minimum of \$75,000 for the first two charters and an additional \$25,000 for each additional charter added.

We noted that the School maintained a balance of \$151,586 in the dissolution escrow account as of June 30, 2020, which represents the two \$75,000 balances for CSD 15 and CSD 13. As this was the School's first year of operations with the inclusion of CSD 15.2, the School was required to have funded the escrow account \$25,000 by June 30, 2020. The escrow account was replenished to an amount equal to \$25,000 in October 2020.

In an effort to ensure that the School is in compliance with the provisions of its charter, we recommend that the School review its escrow fund on a periodic basis to determine it is in compliance with its charter.

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