

COMPASS CHARTER SCHOOL

BROOKLYN, NEW YORK

AUDITED FINANCIAL STATEMENTS

REPORT REQUIRED BY
GOVERNMENT AUDITING STANDARDS

AND

INDEPENDENT AUDITOR'S REPORTS

JUNE 30, 2017

(With Comparative Totals for 2016)



MENGEL METZGER BARR & CO. LLP

Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Compass Charter School

Report on the Financial Statements

We have audited the accompanying financial statements of Compass Charter School, which comprise the statement of financial position as of June 30, 2017, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 auditor's 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 Compass Charter School as of June 30, 2017, and the changes in its net assets, its functional expenses, and its cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited Compass Charter School's June 30, 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 19, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 18, 2017 on our consideration of Compass Charter School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 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 Compass Charter School's internal control over financial reporting and compliance.

Mengel, Metzger, Baw & Co. LLP

Rochester, New York
October 18, 2017

COMPASS CHARTER SCHOOL
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2017
(With Comparative totals for 2016)

	June 30,	
<u>ASSETS</u>	2017	2016
<u>CURRENT ASSETS</u>		
Cash	\$ 404,845	\$ 393,569
Cash in escrow	75,045	50,013
Grants and other receivables	113,367	44,702
Prepaid expenses and other current assets	46,290	37,900
TOTAL CURRENT ASSETS	639,547	526,184
<u>PROPERTY AND EQUIPMENT, net</u>	160,773	161,620
TOTAL ASSETS	\$ 800,320	\$ 687,804
<u>LIABILITIES AND NET ASSETS</u>		
<u>CURRENT LIABILITIES</u>		
Accounts payable and accrued expenses	\$ 39,070	\$ 101,360
Accrued payroll and benefits	229,468	139,439
TOTAL CURRENT LIABILITIES	268,538	240,799
<u>NET ASSETS</u>		
Unrestricted	531,782	445,005
Temporarily restricted	-	2,000
TOTAL NET ASSETS	531,782	447,005
TOTAL LIABILITIES AND NET ASSETS	\$ 800,320	\$ 687,804

The accompanying notes are an integral part of the financial statements.

COMPASS CHARTER SCHOOL

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

YEAR ENDED JUNE 30, 2017
(With Comparative totals for 2016)

	Year ended June 30,			2016
	2017		Total	
	Unrestricted	Temporarily restricted		
Operating revenue and support:				
State and local per pupil operating revenue	\$ 3,457,326	\$ -	\$ 3,457,326	\$ 2,383,704
Government grants	76,268	-	76,268	143,958
Private grants	11,905	1,000	12,905	7,812
Fundraising	73,591	20,413	94,004	115,530
Contributed services	-	-	-	5,472
Other income	39,381	-	39,381	22,929
Interest income	261	-	261	12
Net assets released from restriction	23,413	(23,413)	-	-
TOTAL OPERATING REVENUE AND SUPPORT	3,682,145	(2,000)	3,680,145	2,679,417
Expenses:				
Program:				
Regular education	2,305,271	-	2,305,271	1,473,784
Special education	988,501	-	988,501	756,977
Management and general	203,694	-	203,694	223,092
Fundraising and special events	97,902	-	97,902	77,877
TOTAL EXPENSES	3,595,368	-	3,595,368	2,531,730
CHANGE IN NET ASSETS	86,777	(2,000)	84,777	147,687
Net assets at beginning of year	445,005	2,000	447,005	299,318
NET ASSETS AT END OF YEAR	<u>\$ 531,782</u>	<u>\$ -</u>	<u>\$ 531,782</u>	<u>\$ 447,005</u>

The accompanying notes are an integral part of the financial statements.

COMPASS CHARTER SCHOOL

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2017
(With Comparative totals for 2016)

	No. of Positions	Program Services			Supporting Services			Total	
		Regular Education	Special Education	Sub-total	Fundraising	Management and General	Sub-total	2017	2016
Personnel services costs:									
Administrative staff personnel		\$ 231,262	\$ 31,018	\$ 262,280	\$ 48,727	\$ 126,289	\$	\$ 437,296	\$ 197,656
Instructional personnel		1,117,862						1,782,553	
Non-instructional personnel		175,993					175,016	199,407	1,290,350
Total salaries and wages	6	1,525,117		1,782,553	48,727		175,016	2,419,256	
	26		664,691		-				
Fringe benefits and payroll taxes	3	289,390		199,407			33,209	459,052	148,224
Retirement	35	11,343	23,414	2,244,240	9,246	126,289	-	17,994	1,636,230
Legal service			719,123						
Accounting/Audit services		-	136,453	425,843	362	940	-	1,247	315,348
Other Purchased/Professional/Consulting Services		58,653	-	16,692	86,309	23,963		32,194	158,011
Repairs and maintenance		2,611	5,349		1,874		1,302	95,824	7,984
Insurance		14,268	6,727			1,247	1,247	4,142	4,761
Supplies/Materials		180,646	26,780	207,426	83	32,194	299	22,632	5,472
Equipment/Furnishings		8,629	27,656		456	7,641	9,515	207,426	46,262
Staff development		65,333		3,843			991	13,689	
Marketing/Recruitment		5,923	10,751	20,995	276	216		77,460	19,315
Technology		27,490	12,962	12,698	30,254	1,181	1,637	38,529	97,467
Food service		43,338	2,045	5,766	76,084			43,606	
Student services		13,623			878	715		49,104	4,002
Office expense		25,022	1,812	7,968	3,670	1,182	1,376	65,590	
Depreciation		33,885	15,978	40,452		307	3,154	19,105	7,870
Other				49,104	799	2,276		39,691	20,942
				15,435	1,083			53,752	24,196
		\$ 2,305,271	\$ 988,501	\$ 6,820	\$ 97,902	\$ 203,694	\$ 3,670	\$ 3,585,368	\$ 49,075
				3,293,772			301,596	2,885	2,531,730
				49,863		2,072	2,871		44,210
						2,806	3,889		
						665	665		918

The accompanying notes are an integral part of the financial statements.

COMPASS CHARTER SCHOOL
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2017
(With Comparative totals for 2016)

	Year ended June 30,	
	2017	2016
<u>CASH FLOWS - OPERATING ACTIVITIES</u>		
Change in net assets	\$ 84,777	\$ 147,687
Adjustments to reconcile change in net assets to net cash provided from operating activities:		
Depreciation	53,752	44,210
Changes in certain assets and liabilities affecting operations:		
Grants and other receivables	(68,665)	14,408
Prepaid expenses and other current assets	(8,390)	8,819
Accounts payable and accrued expenses	(62,290)	(4,186)
Accrued payroll and benefits	90,029	50,771
Deferred revenue	-	(2,190)
NET CASH PROVIDED FROM OPERATING ACTIVITIES	89,213	259,519
<u>CASH FLOWS - INVESTING ACTIVITIES</u>		
Purchases of property and equipment	(52,905)	(74,678)
Change in cash in escrow	(25,032)	(25,012)
NET CASH USED FOR INVESTING ACTIVITIES	(77,937)	(99,690)
NET INCREASE IN CASH	11,276	159,829
Cash at beginning of year	393,569	233,740
CASH AT END OF YEAR	\$ 404,845	\$ 393,569

The accompanying notes are an integral part of the financial statements.

COMPASS CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

(With Comparative totals for 2016)

NOTE A: THE CHARTER SCHOOL AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Charter School

Compass Charter School (the “Charter School”) is an educational corporation that operates as a charter school in Brooklyn, New York. The Charter School engages its students in a process of inquiry. The students are equipped with the necessary skills to lead fulfilling personal and professional lives, including a developed sense of self, the ability to think in innovative and flexible ways, and the inspiration to make a positive impact on their community. On December 17, 2013 the Board of Regents of the University of the State of New York granted the Charter School a provisional charter valid for a term of five years and renewable upon expiration.

Financial Statement presentation

The financial statements of the Charter School have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America (GAAP). The Charter School reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

These classes of net assets are defined as follows:

Permanently restricted – Net assets resulting from contributions and other inflows of assets whose use by the Charter School is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Charter School. The Charter School had no permanently restricted net assets at June 30, 2017 or 2016.

Temporarily restricted – Net assets resulting from contributions and other inflows of assets whose use by the Charter School is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Charter School pursuant to those stipulations. As of June 30, 2017, the Charter School had no temporarily restricted assets. The Charter School had \$2,000 of temporarily restricted net assets at June 30, 2016 which were restricted to use for certain supplies.

Unrestricted – The net assets over which the Governing Board has discretionary control to use in carrying on the Charter School’s operations in accordance with the guidelines established by the Charter School. The Board may designate portions of the current unrestricted net assets for specific purposes, projects or investment.

Revenue and support recognition

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

Revenue from federal, state and local government grants and contracts are recorded by the Charter School when qualifying expenditures are incurred and billable or the requirements of the grant are met.

COMPASS CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2017

(With Comparative totals for 2016)

NOTE A: THE CHARTER SCHOOL AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES,

Cont'd

Contributions

Contributions received are recorded as unrestricted, temporarily or permanently restricted support depending on the existence of any donor restrictions. Contributions are recorded 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 purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities and changes in net assets as net assets released from restrictions.

Cash

Cash balances are maintained at financial institutions located in New York and are insured by the Federal Deposit Insurance Corporation up to \$250,000 at each institution. In the normal course of business, the cash account balances at any given time may exceed insured limits. However, the Charter School has not experienced any losses in such accounts and does not believe it is exposed to significant risk in cash.

Cash in escrow

The Charter School maintains cash in an escrow account in accordance with the terms of its charter agreement.

Grants and other receivables

Grants and other receivables are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts based on its assessment of the current status of individual receivables from grants, agencies and others. Balances that are still outstanding after management has used reasonable collection efforts are written off against the allowance for doubtful accounts. There was no allowance for doubtful accounts at June 30, 2017 and 2016.

Property and equipment

Property and equipment are recorded at cost. Depreciation is computed using the straight-line method on a basis considered adequate to depreciate the assets over their estimated useful lives, which range from three to seven years.

Contributed services

The Charter School is located in a New York City Department of Education facility and utilizes approximately 8,500 square feet at no charge. In addition the Charter School receives contributed services from volunteers to serve on the Board of Trustees. The Charter School received transportation services, security agents, custodial services, a nurse, paraprofessionals, speech therapist, occupational therapist, food supplies and services and certain office equipment from the local district. These goods and services are not valued in the financial statements.

The Charter School received no contributed legal services during the year ended June 30, 2017. The Charter School received contributed legal services which were valued at \$5,472 for the year ended June 30, 2016. These amounts are included in contributed services in the accompanying statement of activities and changes in net assets.

COMPASS CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2017

(With Comparative totals for 2016)

NOTE A: THE CHARTER SCHOOL AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES,

Cont'd

Tax exempt status

The Charter School is a tax-exempt organization under section 501(c)(3) of the Internal Revenue Code and applicable state regulations and, accordingly, is exempt from federal and state taxes on income.

The Charter School files Form 990 tax returns in the U.S. federal jurisdiction. The tax returns for the years ended June 30, 2014 through June 30, 2017 are still subject to potential audit by the IRS. Management of the Charter School believes it has no material uncertain tax positions and, accordingly it will not recognize any liability for unrecognized tax benefits.

Marketing costs

The Charter School expenses marketing costs as they are incurred. Total marketing and recruiting costs approximated \$38,500 and \$7,900 for the years ended June 30, 2017 and 2016, respectively.

Deferred revenue

The Charter School records grant revenue as deferred revenue until it is expended for the purpose of the grant, at which time it is recognized as revenue.

Use of estimates in the preparation of financial statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Comparatives for period ended June 30, 2016

The financial statements include certain prior year summarized comparative information in total but not by net asset class or functional classification. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Charter School's financial statements for the year ended June 30, 2016, from which the summarized information was derived.

Subsequent events

The Charter School has conducted an evaluation of potential subsequent events occurring after the statement of financial position date through October 18, 2017, which is the date the financial statements are available to be issued. No subsequent events requiring disclosure were noted.

COMPASS CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2017

(With Comparative totals for 2016)

NOTE B: PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

	June 30,	
	2017	2016
Furniture and fixtures	\$ 177,203	\$ 146,710
Office equipment	66,824	56,451
Computers and equipment	44,537	32,498
	<u>288,564</u>	<u>235,659</u>
Less accumulated depreciation	127,791	74,039
	<u>\$ 160,773</u>	<u>\$ 161,620</u>

NOTE C: SCHOOL FACILITY

The Charter School has entered into a verbal agreement with the New York City Department of Education for dedicated and shared space at M.S. 113 Ronald Edmonds Learning Center, a New York City Public School located at 300 Adelphi Street, Brooklyn, New York. Pursuant to the terms of the Agreement, the Charter School shall not pay for the use of the shared facility.

NOTE D: CONTINGENCY

Certain grants and contracts may be subject to audit by funding sources. Such audits might result in disallowance of costs submitted for reimbursement by the Charter School. Management is of the opinion that such 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.

NOTE E: CONCENTRATIONS

At June 30, 2017 and 2016, approximately 81% and 75% of grants and other receivables are due from New York State relating to a certain grant.

For the years ended June 30, 2017 and 2016, approximately 94% and 89%, respectively, of total operating revenue and support came from per-pupil funding provided by New York State. The per-pupil rate is set annually by the State based on the school district in which the Charter School's students are located.

NOTE F: RETIREMENT PLAN

The Charter School sponsors a 401(k) retirement plan (the "Plan") for its employees. The Plan allows for the Charter School to make discretionary contributions to the Plan. The Charter School contributed approximately \$14,000 and \$6,000 to the Plan for the years ended June 30, 2017 and 2016, respectively.

COMPASS CHARTER SCHOOL

REPORT REQUIRED BY GOVERNMENT AUDITING STANDARDS

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*

Board of Trustees
Compass Charter School

We have audited, 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, the financial statements of Compass Charter School, which comprise the statement of financial position as of June 30, 2017 and the related statements of activities and changes in net assets, 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 18, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Compass Charter 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 Compass Charter School's internal control. Accordingly, we do not express an opinion on the effectiveness of Compass Charter 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 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 material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting 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 Compass Charter 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*.

We noted certain other matters that we have reported to management of Compass Charter School in a separate letter dated October 18, 2017.

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.

Mengel, Metzger, Barw & Co. LLP

Rochester, New York
October 18, 2017

COMPASS CHARTER SCHOOL
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2017

SCHEDULE OF PRIOR YEAR FINDINGS AND RESPONSES

Finding 2016-001

Statement of Condition

During our audit we noted the Charter School did not adhere to the terms of their charter agreement, resulting in the late deposit of \$25,000 into the Charter School's escrow account.

Criteria and effect of conditions

During our audit we noted the Charter School's charter agreement required the School to deposit \$25,000 into the escrow accounting by December 15, 2015. We noted the School did not deposit the \$25,000 into the escrow accounting until June 30, 2016.

Recommendation

We recommend the remaining \$25,000 deposit be made by December 31, 2016.

Management response

Management acknowledges and will deposit the additional \$25,000 by December 31, 2016.

Current status

The Charter School made the final deposit before December 31, 2016.