

**SCHOOL IN THE SQUARE  
PUBLIC CHARTER SCHOOL**

Audited Financial Statements In Accordance  
With Government Auditing Standards

June 30, 2019

# SCHOOL IN THE SQUARE PUBLIC CHARTER SCHOOL

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## **Independent Auditor's Report**

To the Board of Directors of  
School in the Square Public Charter School

### ***Report on the Financial Statements***

We have audited the accompanying financial statements of School in the Square Charter School (the "School"), which comprise the statement of financial position as of June 30, 2019, and the related statements of activities, 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 organization'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 organization'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 School in the Square Public Charter School as of June 30, 2019, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Emphasis of Matter***

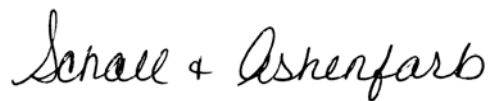
As discussed in Note 2 to the financial statements, the School adopted Accounting Standards Update ("ASU") No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

### ***Report on Summarized Comparative Information***

We have previously audited the School's 2018 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 18, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2018 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 24, 2019 on our consideration of the School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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.



Schall & Ashenfarb  
Certified Public Accountants, LLC

October 24, 2019

**SCHOOL IN THE SQUARE PUBLIC CHARTER SCHOOL**  
**STATEMENT OF FINANCIAL POSITION**  
**AT JUNE 30, 2019**  
(with comparative totals at June 30, 2018)

	<u>6/30/19</u>	<u>6/30/18</u>
<b>Assets</b>		
Cash and cash equivalents	\$820,067	\$207,690
Restricted cash (Note 3)	76,237	26,142
Grants receivable - New York City (Note 4)	38,062	0
Government grants receivable	67,655	137,794
Pledges receivable	35,067	6,618
Prepaid expenses and other assets	26,956	27,012
Fixed assets, net (Note 5)	675,508	713,134
Security deposit	41,667	41,667
	<u>                    </u>	<u>                    </u>
Total assets	<u><u>\$1,781,219</u></u>	<u><u>\$1,160,057</u></u>
<b>Liabilities and Net Assets</b>		
Liabilities:		
Accounts payable and accrued expenses	\$296,537	\$188,835
Deferred rent	75,478	780,000
Total liabilities	<u>372,015</u>	<u>968,835</u>
Net assets:		
Without donor restrictions	1,409,204	191,222
Total net assets	<u>1,409,204</u>	<u>191,222</u>
	<u>                    </u>	<u>                    </u>
Total liabilities and net assets	<u><u>\$1,781,219</u></u>	<u><u>\$1,160,057</u></u>

*The attached notes and auditor's report are an integral part of these financial statements.*

**SCHOOL IN THE SQUARE PUBLIC CHARTER SCHOOL**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2019**  
(with comparative totals for the year ended June 30, 2018)

	6/30/19	6/30/18
<b>Without donor restrictions:</b>		
Public support and revenue:		
Public school district: (Note 4)		
Revenue - resident student enrollment	\$4,573,349	\$2,934,846
Revenue - students with disabilities	1,018,690	579,029
Total public school district revenue	5,592,039	3,513,875
New York City rental assistance	933,400	566,600
Government grants - other	554,916	355,647
Contributions and other income	623,493	441,467
	7,703,848	4,877,589
 Expenses:		
Program services:		
Regular education	4,136,465	3,423,525
Special education	1,468,926	963,544
Total program services	5,605,391	4,387,069
Supporting services:		
Management and general	857,151	634,307
Fundraising	23,324	14,160
	6,485,866	5,035,536
 Change in net assets	1,217,982	(157,947)
 Net assets - beginning of year	191,222	349,169
 Net assets - end of year	\$1,409,204	\$191,222

*The attached notes and auditor's report are an integral part of these financial statements.*

**SCHOOL IN THE SQUARE PUBLIC CHARTER SCHOOL**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**FOR THE YEAR ENDED JUNE 30, 2019**  
(with comparative totals for the year ended June 30, 2018)

	Program Services			Supporting Services		Total Expenses 6/30/19	Total Expenses 6/30/18
	Regular Education	Special Education	Total Program Services	Management and General	Fundraising		
Personnel costs:							
Salaries	\$2,295,749	\$855,933	\$3,151,682	\$406,665	\$8,750	\$3,567,097	\$2,215,771
Payroll taxes and benefits	472,344	176,106	648,450	83,670	1,800	733,920	439,523
<b>Total personnel costs</b>	<b>2,768,093</b>	<b>1,032,039</b>	<b>3,800,132</b>	<b>490,335</b>	<b>10,550</b>	<b>4,301,017</b>	<b>2,655,294</b>
Professional fees	471,527	137,884	609,411	207,673		817,084	657,291
Curriculum and student services	334,351	97,770	432,121			432,121	309,177
Classroom supplies and materials	34,651	10,331	44,982			44,982	41,741
Occupancy	185,941	69,325	255,266	32,937	709	288,912	895,164
Office supplies	18,322	6,831	25,153	3,246	70	28,469	50,457
Equipment	44,394	16,552	60,946	7,864	169	68,979	79,889
IT and telecommunications	77,007	28,711	105,718	13,641	293	119,652	73,734
Recruitment			0	31,514		31,514	31,355
Travel			0	44,122		44,122	33,942
Insurance	43,706	16,295	60,001	7,742	167	67,910	52,222
Professional development	73,320	21,440	94,760			94,760	38,522
Depreciation	85,153	31,748	116,901	15,084	324	132,309	115,317
Other expenses			0	2,993	11,042	14,035	1,431
<b>Total other than personnel costs</b>	<b>1,368,372</b>	<b>436,887</b>	<b>1,805,259</b>	<b>366,816</b>	<b>12,774</b>	<b>2,184,849</b>	<b>2,380,242</b>
<b>Total expenses</b>	<b>\$4,136,465</b>	<b>\$1,468,926</b>	<b>\$5,605,391</b>	<b>\$857,151</b>	<b>\$23,324</b>	<b>\$6,485,866</b>	<b>\$5,035,536</b>

*The attached notes and auditor's report are an integral part of these financial statements.*

**SCHOOL IN THE SQUARE PUBLIC CHARTER SCHOOL**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED JUNE 30, 2019**  
(with comparative totals for the year ended June 30, 2018)

	<u>6/30/19</u>	<u>6/30/18</u>
Cash flows from operating activities:		
Change in net assets	\$1,217,982	(\$157,947)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	132,309	115,317
Changes in assets and liabilities:		
Restricted cash	(50,095)	(1,142)
Grants receivable - New York City	(38,062)	971
Government grants receivable	70,139	(52,221)
Pledges receivable	(28,449)	42,397
Prepaid expenses	56	68,102
Accounts payable and accrued expenses	107,702	54,065
Deferred rent	(704,522)	265,000
Total adjustments	<u>(510,922)</u>	<u>492,489</u>
Net cash provided by operating activities	<u>707,060</u>	<u>334,542</u>
Cash flows from investing activities:		
Purchase of fixed assets	(94,683)	(252,490)
Net cash used for investing activities	<u>(94,683)</u>	<u>(252,490)</u>
Net increase in cash and cash equivalents	612,377	82,052
Cash and cash equivalents - beginning of year	<u>207,690</u>	<u>125,638</u>
Cash and cash equivalents - end of year	<u><u>\$820,067</u></u>	<u><u>\$207,690</u></u>

No interest or taxes were paid.

*The attached notes and auditor's report are an integral part of these financial statements.*



**SCHOOL IN THE SQUARE PUBLIC CHARTER SCHOOL**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2019**

**Note 1 - Organization and Nature of Activities**

School in the Square Public Charter School (the "School"), located in the Washington Heights neighborhood of Manhattan in New York City, is a not-for-profit educational corporation chartered by the Board of Regents of the State of New York. The mission of the School is to engage, educate and empower adolescents in Washington Heights to respond mindfully and creatively to life's opportunities and challenges.

On November 17, 2015, the School was granted a provisional charter by the Board of Regents of the State of New York for a term of five years, expiring on June 30, 2020. Such a provisional charter may be extended upon application for a term of up to five years in accordance with the provisions of Article 56 of the Education law. The School has been notified by the Internal Revenue Service that it is a not-for-profit organization exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code and has not been designated as a private foundation.

The School is affiliated with Friends of School in the Square, Inc. ("Friends") through the use of shared members of their respective boards of directors. Friends is a not-for-profit corporation established to support the creation of the School and function as the fundraising arm of the School.

**Note 2 - Significant Accounting Policies**

a. Basis of Accounting

The financial statements have been prepared using the accrual basis of accounting, which is the process of recognizing revenue and expenses when earned or incurred rather than received or paid.

Effective July 1, 2018, the School adopted the requirements of the Financial Accounting Standards Board's Accounting Standards Update No. 2016-14 – Not-for-Profit Entities (Topic 958): *Presentation of Financial Statements of Not-for-Profit Entities* (ASU 2016-14). This standard addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return between not-for-profit entities. A key change required by ASU 2016-14 is the net asset classes used in these financial statements. Amounts previously reported as unrestricted net assets are now reported as net assets without donor restrictions and amounts previously reported as temporarily restricted net assets and permanently restricted net assets are now reported as net assets with donor restrictions. A footnote on liquidity has also been added (Note 10).

Implementation of ASU 2016-14 did not require any reclassification or restatement of opening balances related to the periods presented.

- b. Basis of Presentation  
Not-for-profit organizations report information regarding its financial position and activities according to specific classes of net assets, as follows:
- *Net Assets Without Donor Restrictions* – accounts for activity without donor-imposed restrictions.
  - *Net Assets With Donor Restrictions* – relates to activity based on specific donor restrictions that are expected to be satisfied by the passage of time or performance of activities.
- c. Cash and Cash Equivalents  
The School considers all liquid investments with an initial maturity of three months or less to be cash and cash equivalents.
- d. Concentration of Credit  
Financial instruments, which potentially subject the School to concentration of credit risk, consist of cash accounts, which have been placed with financial institutions that management deems to be creditworthy. At times, balances may exceed federally insured limits. At year end, there were no significant uninsured balances.
- e. Government Grants and Pledges Receivable  
All receivables at June 30, 2019 are due within one year and have been recorded at net realizable value. The School reviews receivables that are unlikely to be collected including an analysis of cash received subsequent to the date of the statement of financial position. Based on this review, no allowance for doubtful accounts was deemed necessary as of June 30, 2019 or June 30, 2018. Write-offs will be made directly to operations in the period the receivable is deemed to be uncollectable.
- f. Capitalization Policy  
Leasehold improvements, as well as equipment and furniture that benefit future periods are recorded at cost or at fair value at the date of gift. Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets, as follows:
- Furniture and equipment – *5-7 years*  
Leasehold improvements – *life of lease*
- g. Deferred Rent  
Rent expense is recognized evenly over the life of the lease using the straight-line method. In the earlier years of the lease, as rent expense exceeds amounts paid, a deferred rent liability is created. In later years of the lease, as payments exceed the amount of expense recognized, deferred rent will be reduced until it is zero at the end of the lease.
- h. Revenue – Public School District  
The School receives grants from the New York City Department of Education (“NYCDOE”) to carry out its operations. Program revenues are recognized based on rates established by the School’s funding sources and the amount realizable on the accrual basis in the period during which services are provided.

i. Government Grants

Government grants are recognized as income when earned. The difference between grants earned and cash received is recorded as either grants receivable or government grant advances.

j. Donated Services

Donated services are recognized in circumstances where those services create or enhance non-financial assets or require specialized skills, are provided by individuals possessing those skills and would typically need to be purchased, if not provided in-kind.

Board members and other individuals volunteer their time and perform a variety of tasks that assist the School. These services do not meet the criteria outlined above and have not been recorded in the financial statements.

k. Use of Estimates

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

l. Functional Allocation of Expenses

The costs of providing various programs and other activities have been summarized on a functional basis in the financial statements. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Such allocations are determined by management on an equitable basis.

The following expense was allocated using time and effort as the basis:

- Salaries

The following expenses were allocated using salary allocation as the basis:

- Payroll taxes and employee benefits
- Occupancy
- Office expenses
- Equipment
- IT and telecommunications
- Insurance
- Depreciation

The following expenses were allocated using student FTE ratios as the basis:

- Student services
- Classroom supplies and materials
- Professional development

All other expenses have been charged directly to the applicable program or supporting services.

m. Summarized Comparative Information

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the School's financial statements for the year ended June 30, 2018 from which the summarized information was derived.

n. Contingencies

Government contracts are subject to audit by the grantor. The School does not believe that any audits, if they were to occur, would result in material disallowed costs, and has not established any reserves. Any disallowed costs would be recorded in the period notified.

o. Accounting for Uncertainty of Income Taxes

The School does not believe its financial statements include any material, uncertain tax positions. Tax filings for periods ending June 30, 2016, the School's initial filing, and later are subject to examination by applicable taxing authorities.

p. Subsequent Events

The School has evaluated for potential recognition and disclosure events subsequent to the date of the statement of financial position through October 24, 2019, the date the financial statements were available to be issued. All events that have occurred subsequent to the statement of financial position date, through our evaluation date that would require adjustment to or further disclosure in the financial statements have been made.

q. New Accounting Pronouncement

FASB issued ASU No. 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The ASU, which becomes effective for the June 30, 2020 year, provides guidance on whether a receipt from a third-party resource provider should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958, Not-for-Profit Entities, or as exchange (reciprocal) transactions.

In addition, FASB issued ASU No. 2016-02, *Leases*. The ASU, which becomes effective for the June 30, 2021 year, requires all leases to be reflected as assets and liabilities on the statement of financial position.

The School is in the process of evaluating the impact these standards will have on future financial statements.

**Note 3 - Restricted Cash**

An escrow account has been established to meet the requirement of NYCDOE. The purpose of this account is to ensure sufficient funds are available for an orderly dissolution or transition process in the event of termination of the charter or school closure.

**Note 4 - Grants Receivable – New York City Department of Education**

Grants receivable on the contract with the NYCDOE at June 30, 2019 was determined as follows:

Per pupil funding:	
Beginning grant receivable/advance	\$0
Funding based on allowable FTE's	5,592,039
Advances received	<u>(5,553,977)</u>
Ending receivable – per pupil	<u>\$38,062</u>

**Note 5 - Fixed Assets**

Fixed assets consist of the following:

	<u>6/30/19</u>	<u>6/30/18</u>
Furniture and equipment	\$484,259	\$400,869
Leasehold improvements	<u>509,074</u>	<u>497,781</u>
	993,333	898,650
Less: accumulated depreciation	<u>(317,825)</u>	<u>(185,516)</u>
Net fixed assets	<u>\$675,508</u>	<u>\$713,134</u>

**Note 6 - Commitments**

Effective July 1, 2018, the School assigned the lease agreement for educational and office space to Friends, and simultaneously entered into a sublease agreement with them. Both the lease and sublease expire on June 30, 2026. Friends is responsible to pay rent, various utilities and provide services on the School's behalf. The School will then make monthly payments to Friends to cover these expenses.

Subsequent to year-end and effective July 1, 2019, the sublease with Friends was amended.

The following schedule outlines the future minimum payments under the amended sublease:

Year ending:	June 30, 2020	\$1,274,124
	June 30, 2021	1,126,728
	June 30, 2022	1,229,521
	June 30, 2023	1,237,509
	June 30, 2024	1,245,697
	Thereafter	<u>2,516,781</u>
Total		<u>\$8,630,360</u>

**Note 7 - Significant Concentrations**

The School is dependent upon grants from the NYCDOE to carry out its operations. Approximately 85% and 84% of the School's total public support and revenue was from NYCDOE for the years ended June 30, 2019 and 2018, respectively. If the NYCDOE were to discontinue funding, it would have a severe economic impact on the School's ability to operate.

**Note 8 - Retirement Plan**

The School adopted a defined contribution 401(k) profit sharing plan (the “Plan”), which covers most of the employees. Employees who are 21 years of age and older are eligible to enroll in the Plan after one month of service. The Plan provides for the School to fully match up to 3% of the participating employee’s salary as well as 50% of an additional 2% of an employee’s salary. The School’s contributions to the Plan becomes fully vested when the employee completes six years of service. Total contributions to the Plan totaled \$100,000 and \$51,000 during the years ended June 30, 2019 and 2018, respectively.

**Note 9 - Related Party Transactions**

In addition to the lease agreement between School and Friends, Friends provides operating grants to the School on an ongoing basis. Grants from Friends to the School totaled \$500,000 and \$350,000 during the years ended June 30, 2019 and 2018, respectively.

**Note 10 - Liquidity and Availability of Financial Resources**

The School maintains cash on hand to be available for its general expenditures, liabilities, and other obligations for on-going operations. As part of its liquidity management, the School operates its programs within a board approved budget and relies on per pupil funding, grants and contributions to fund its operations and program activities.

The following reflects the School’s financial assets at June 30, 2019 that are available to meet cash needs for general expenditures within one year:

Cash and cash equivalents – not restricted	\$820,067
Grants receivable due within 1 year	105,717
Pledges receivable due within 1 year	<u>35,067</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$960,851</u>

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING  
STANDARDS***

To the Board of Directors of  
School in the Square Public Charter School

***Report on the Financial Statements***

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 School in the Square Public Charter School (the "School"), which comprise the statement of financial position as of June 30, 2019, 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 24, 2019 .

***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 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. *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.

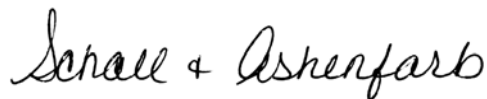
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control 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 of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### ***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.



Schall & Ashenfarb  
Certified Public Accountants, LLC

October 24, 2019



**SCHOOL IN THE SQUARE PUBLIC CHARTER SCHOOL  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
JUNE 30, 2019**

Current Year:

None

Prior Year:

None