

Launch Expeditionary Learning Charter School

Financial Statements

June 30, 2018 and 2017

Independent Auditors' Report

Board of Trustees
Launch Expeditionary Learning Charter School

Report on the Financial Statements

We have audited the accompanying financial statements of Launch Expeditionary Learning Charter School (the "School"), which comprise the statements of financial position as of June 30, 2018 and 2017, 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, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the School's 2017 financial statements, and we expressed an unmodified opinion on those audited financial statements in our report dated October 10, 2017. In our opinion, the summarized comparative statement of functional expenses presented herein for the year ended June 30, 2017 is consistent, in all material aspects, with the audited financial statements from which it was derived.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 22, 2018, on our consideration of the School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the School's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control over financial reporting and compliance.

PKF O'Connor Davies, LLP

Harrison, New York
October 22, 2018

Launch Expeditionary Learning Charter School

Statements of Financial Position

	June 30,	
	2018	2017
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 2,310,432	\$ 2,019,567
Grants and contracts receivable	138,491	235,148
Prepaid expenses and other current assets	81,119	127,032
Total Current Assets	2,530,042	2,381,747
Property and equipment, net	548,937	595,692
Restricted cash	75,300	75,263
	\$ 3,154,279	\$ 3,052,702
 LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable and accrued expenses	\$ 211,843	\$ 57,131
Accrued payroll and payroll taxes	274,462	273,708
Refundable advances	22,989	20,197
Total Liabilities	509,294	351,036
Net assets, unrestricted	2,644,985	2,701,666
	\$ 3,154,279	\$ 3,052,702

See notes to financial statements

Launch Expeditionary Learning Charter School

Statements of Activities

	Year Ended June 30,	
	2018	2017
REVENUE AND SUPPORT		
State and local per pupil operating revenue	\$ 5,472,932	\$ 5,661,281
Federal grants	287,382	250,732
State and city grants	23,682	25,036
Contributions and grants	32,933	23,335
Donated goods and services	-	6,720
Interest and other income	8,169	999
Total Revenue and Support	5,825,098	5,968,103
EXPENSES		
Program Services		
Regular education	3,368,543	2,644,550
Special education	1,967,701	2,466,256
Total Program Services	5,336,244	5,110,806
Supporting Services		
Management and general	516,731	470,984
Fundraising	28,804	8,109
Total Supporting Services	545,535	479,093
Total Expenses	5,881,779	5,589,899
Change in net assets	(56,681)	378,204
NET ASSETS, UNRESTRICTED		
Beginning of year	2,701,666	2,323,462
End of year	\$ 2,644,985	\$ 2,701,666

See notes to financial statements

Launch Expeditionary Learning Charter School

Statement of Functional Expenses

Year Ended June 30, 2018

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

	No. of Positions	2018						2017	
		Program Services			Support Services			Total	Total
		Regular Education	Special Education	Total	Management and General	Fundraising	Total		
Personnel Service Costs									
Administrative staff personnel	11	\$ 583,555	\$ 368,784	\$ 952,339	\$ 84,889	\$ 6,291	\$ 91,180	\$ 1,043,519	\$ 810,280
Instructional personnel	36	1,242,182	773,744	2,015,926	175,479	13,004	188,483	2,204,409	2,238,339
Non-instructional personnel	5	177,700	112,300	290,000	25,850	1,916	27,766	317,766	387,447
Total Salaries and Staff	52	2,003,437	1,254,828	3,258,265	286,218	21,211	307,429	3,565,694	3,436,066
Fringe benefits and payroll taxes		447,793	283,400	731,193	64,628	4,768	69,396	800,589	751,470
Retirement		5,944	3,757	9,701	865	64	929	10,630	14,385
Audit services		-	-	-	22,000	-	22,000	22,000	22,250
Other purchased / professional / consulting services		173,681	82,650	256,331	99,038	555	99,593	355,924	284,681
Repairs and maintenance		3,780	1,202	4,982	-	-	-	4,982	6,834
Insurance		18,162	10,334	28,496	1,608	104	1,712	30,208	30,141
Supplies / materials		156,540	37,151	193,691	1,639	101	1,740	195,431	230,922
Equipment / furnishings		6,237	19,598	25,835	-	-	-	25,835	16,137
Staff development		55,751	36,731	92,482	6,250	385	6,635	99,117	56,500
Marketing and recruiting		65,274	24,535	89,809	1,242	76	1,318	91,127	87,966
Total Liabilities		69,105	21,978	91,083	-	-	-	91,083	82,245
Student services		139,414	44,337	183,751	-	-	-	183,751	217,099
Office expense		56,071	36,942	93,013	6,287	385	6,672	99,685	50,493
Depreciation and amortization		167,354	110,258	277,612	18,761	1,155	19,916	297,528	294,086
Loss on disposal of property and equipment		-	-	-	-	-	-	-	7,759
Other		-	-	-	8,195	-	8,195	8,195	865
Total Expenses		<u>\$ 3,368,543</u>	<u>\$ 1,967,701</u>	<u>\$ 5,336,244</u>	<u>\$ 516,731</u>	<u>\$ 28,804</u>	<u>\$ 545,535</u>	<u>\$ 5,881,779</u>	<u>\$ 5,589,899</u>

Launch Expeditionary Learning Charter School

Statements of Cash Flows

	Year Ended June 30,	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (56,681)	\$ 378,204
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation and amortization	297,528	294,086
Loss on disposal of property and equipment	-	7,759
Changes in operating assets and liabilities		
Grants and contracts receivable	96,657	(97,214)
Prepaid expenses and other current assets	45,913	(78,346)
Accounts payable and accrued expenses	154,712	(17,416)
Accrued payroll and payroll taxes	754	25,980
Refundable advances	2,792	(6,241)
Net Cash from Operating Activities	541,675	506,812
 CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(250,773)	(137,524)
Restricted cash	(37)	(37)
Net Cash from Investing Activities	(250,810)	(137,561)
 Net Change in Cash and Cash Equivalents	290,865	369,251
 CASH AND CASH EQUIVALENTS		
Beginning of year	2,019,567	1,650,316
End of year	\$ 2,310,432	\$ 2,019,567

See notes to financial statements

Launch Expeditionary Learning Charter School

Notes to Financial Statements
June 30, 2018 and 2017

1. Organization and Tax Status

Launch Expeditionary Learning Charter School (the “School”) is a New York State, not-for-profit educational corporation that was incorporated to operate a charter school pursuant to Article 56 of the Education Law of the State of New York. The School was granted a provisional charter on December 14, 2010 valid for a term of five years and renewable upon expiration by the Board of Regents of the University of the State of New York. The provisional charter commenced on August 22, 2010 and expired on August 22, 2017. The Board of Regents voted on January 10, 2017 to extend the provisional charter, and any amendment thereto, up through and including June 30, 2019. The School was created to offer a world-class education to students and families living in Bedford-Stuyvesant, Crown Heights and the surrounding communities in Brooklyn, NY. Through its partnership with NYC Outward Bound Schools, the School is part of the Expeditionary Learning network of over 160 member schools nationwide. Its mission is to prepare students in under-resourced communities to thrive in college and careers by providing a public education rooted in active learning experiences and powerful character development. During the 2017-2018 academic year, the School provided education to approximately 286 students in the sixth through eighth grades.

The School has an agreement with the New York City Department of Education (“NYCDOE”) to share public school space at no annual cost. The School occupies approximately 14,000 square feet on one floor of a public school building. The School also shares the gymnasium, auditorium and cafeteria with the public school which approximate 6,411 square feet. The School is not responsible for rent, utilities, custodial services, and school safety services other than those required for days and times the School operates outside of the traditional NYCDOE schedule. The School was unable to determine a value for the contributed space and related services and did not record any value for use of donated facilities or services.

The New York City Department of Education provides free lunches directly to some of the School’s students. Such costs are not included in these financial statements. The School covers the cost of lunches for children not entitled to the free lunches.

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.

Launch Expeditionary Learning Charter School

Notes to Financial Statements
June 30, 2018 and 2017

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

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:

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

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

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

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

Cash and Cash Equivalents

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

Restricted Cash

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

Launch Expeditionary Learning Charter School

Notes to Financial Statements
June 30, 2018 and 2017

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

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

Computers	4 years
Equipment	5 years
Furniture and fixtures	5 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. Assets were impaired in the amount of \$20,000 for the year ended June 30, 2017.

Refundable Advances

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

Revenue and Support

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

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

Launch Expeditionary Learning Charter School

Notes to Financial Statements
June 30, 2018 and 2017

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

Functional Expense Allocation

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

Accounting for Uncertainty in Income Taxes

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

Prior Year Summarized Comparative Financial Information

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

Reclassifications

Certain 2017 accounts have been reclassified to conform to the 2018 financial statement presentation. The reclassifications had no effect on 2017 net assets and change in net assets.

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 22, 2018.

3. Grants and Contracts Receivable

Grants and contracts receivable consist of federal, state and city entitlements and grants. The School expects to collect these receivables within one year.

Launch Expeditionary Learning Charter School

Notes to Financial Statements June 30, 2018 and 2017

4. Property and Equipment

Property and equipment consists of the following at June 30:

	2018	2017
Computers	\$ 132,744	\$ 356,587
Equipment	166,303	124,424
Furniture and fixtrures	329,962	266,486
Leasehold improvements	829,289	691,039
	<u>1,458,298</u>	<u>1,438,536</u>
Accumulated depreciation and amortization	<u>(909,361)</u>	<u>(842,844)</u>
	<u>\$ 548,937</u>	<u>\$ 595,692</u>

Assets with a cost basis and accumulated depreciation of \$231,011 were disposed of during the year ended June 30, 2018. Assets with a cost basis of \$25,961 and accumulated depreciation of \$18,202 were disposed of during the year ended June 30, 2017. Loss on disposal of property and equipment was \$7,759 for the year ended June 30, 2017.

5. Donated Goods and Services

Donated goods are recorded at their estimated fair value when received. The School received software licenses and associated installation and support services at no charge. The service provider agreed to waive fees for the first five years through June 30, 2017. The value of these goods and associated services meets the criteria for recognition in the financial statements and are recorded at fair value of \$6,720 for the year ended June 30, 2017. The value of these services were allocated to program and supporting services in the accompanying statements of activities.

6. Concentration of Credit Risk

Financial instruments that potentially subject the School to concentrations of credit and market risk consist principally of cash and cash equivalents on deposit with financial institutions, which from time to time may exceed the Federal Deposit Insurance Corporation ("FDIC") limit. The School does not believe that a significant risk of loss due to the failure of a financial institution presently exists. As of June 30, 2018 and 2017, approximately \$2,133,000 and \$1,844,000 of cash was maintained with an institution in excess of FDIC limits.

7. Concentration of Revenue and Support

The School receives a substantial portion of its revenue and support from the New York City Department of Education. For the years ended June 30, 2018 and 2017, the School received approximately 94% and 95% 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.

Launch Expeditionary Learning Charter School

Notes to Financial Statements
June 30, 2018 and 2017

8. Employment Contract

The School entered into a co-employment arrangement with TriNet Group, Inc. ("TriNet"), a professional employment organization, effective May 1, 2013. Under the co-employment arrangement, TriNet assumes certain employment responsibilities, including the payment and reporting employees' wages and payroll taxes.

9. Employee Benefit Plan

For the benefit of its employees, the School participates in a multiple employer defined contribution 401(k) plan, through its professional employment organization partner, TriNet Group, Inc. (see Note 8). Under the 401(k) plan, all employees of the School can elect to make semi-monthly contributions to a personal retirement account. The School will make matching contributions to any employee contributions, dollar for dollar, up to \$500 per employee per calendar year. For the years ended June 30, 2018 and 2017, all employees were eligible to participate in the 401(k) plan and all employees were eligible for the employer match. Employer match for the years ended June 30, 2018 and 2017 was \$10,630 and \$14,385.

10. Contingency

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

* * * * *

**Report on Internal Control Over Financial Reporting and on Compliance
and Other Matters Based on an Audit of Financial Statements Performed
in Accordance With *Government Auditing Standards***

Independent Auditors' Report

**Board of Trustees
Launch Expeditionary Learning 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 Launch Expeditionary Learning Charter School (the "School"), which comprise the statement of financial position as of June 30, 2018, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 22, 2018.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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 22, 2018