

Launch Expeditionary Learning Charter School

Financial Statements

June 30, 2017 and 2016

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 statement of financial position as of June 30, 2017, 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.

Auditors' 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 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 School'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 School'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, 2017, 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.

Prior Period Financial Statements

The summarized comparative financial statements as of June 30, 2016 and for the year then ended, were audited by other auditors who ceased operations. Those auditors expressed an unmodified opinion on those financial statements in their report dated September 22, 2016.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 10, 2017, 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 10, 2017

Launch Expeditionary Learning Charter School

Statement of Financial Position
June 30, 2017
(with comparative amounts at June 30, 2016)

	<u>2017</u>	<u>2016</u>
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 2,019,567	\$ 1,650,316
Grants and contracts receivable	235,148	137,934
Prepaid expenses and other current assets	<u>127,032</u>	<u>48,686</u>
Total Current Assets	2,381,747	1,836,936
Property and equipment, net	595,692	760,013
Restricted cash	<u>75,263</u>	<u>75,226</u>
	<u>\$ 3,052,702</u>	<u>\$ 2,672,175</u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable and accrued expenses	\$ 57,131	\$ 74,547
Accrued payroll and payroll taxes	273,708	247,728
Refundable advances	<u>20,197</u>	<u>26,438</u>
Total Current Liabilities	351,036	348,713
Net assets, unrestricted	<u>2,701,666</u>	<u>2,323,462</u>
	<u>\$ 3,052,702</u>	<u>\$ 2,672,175</u>

See notes to financial statement

Launch Expeditionary Learning Charter School

Statement of Activities
Year Ended June 30, 2017

(with summarized totals for the year ended June 30, 2016)

	<u>2017</u>	<u>2016</u>
REVENUE AND SUPPORT		
State and local per pupil operating revenue	\$ 5,661,281	\$ 5,264,890
Federal grants	250,732	248,287
State and city grants	25,036	25,394
Contributions and grants	23,335	19,643
Donated goods and services	6,720	6,666
Interest and other income	999	1,077
Total Revenue and Support	<u>5,968,103</u>	<u>5,565,957</u>
EXPENSES		
Program Services		
Regular education	2,644,550	3,073,718
Special education	<u>2,466,256</u>	<u>2,267,714</u>
Total Program Services	5,110,806	5,341,432
Supporting Services		
Management and general	470,984	277,793
Fundraising	<u>8,109</u>	<u>13,400</u>
Total Supporting Services	479,093	291,193
Total Expenses	<u>5,589,899</u>	<u>5,632,625</u>
 Change in net assets	 378,204	 (66,668)
NET ASSETS, UNRESTRICTED		
Beginning of year	<u>2,323,462</u>	<u>2,390,130</u>
 End of year	 <u>\$ 2,701,666</u>	 <u>\$ 2,323,462</u>

See notes to financial statements

Launch Expeditionary Learning Charter School

Statement of Functional Expenses
Year Ended June 30, 2017
(with summarized totals for the year ended June 30, 2016)

	No. of Positions	2017							2016
		Program Services			Support Services				
		Regular Education	Special Education	Total	Management and General	Fundraising	Total	Total	
Personnel service costs									
Administrative staff personnel	9	369,574	384,035	753,609	55,219	1,452	56,671	810,280	1,136,929
Instructional personnel	35	1,024,662	1,058,048	2,082,710	151,640	3,989	155,629	2,238,339	2,146,791
Non-instructional personnel	7	176,717	183,631	360,348	26,404	695	27,099	387,447	337,236
Total salaries and staff	51	1,570,953	1,625,714	3,196,667	233,263	6,136	239,399	3,436,066	3,620,956
Fringe benefits and payroll taxes		342,216	357,160	699,376	50,773	1,321	52,094	751,470	733,643
Retirement		6,561	6,818	13,379	980	26	1,006	14,385	13,490
Audit services		-	-	-	22,250	-	22,250	22,250	22,250
Other purchased / professional / consulting services		112,161	63,169	175,330	132,669	67	132,736	308,066	288,006
Repairs and maintenance		-	-	-	-	-	-	-	3,014
Insurance		14,879	13,823	28,702	1,411	28	1,439	30,141	37,118
Supplies / materials		203,633	83,838	287,471	1,876	35	1,911	289,382	210,168
Equipment / furnishings		11,341	4,687	16,028	107	2	109	16,137	3,144
Staff development		37,541	18,177	55,718	767	15	782	56,500	46,505
Marketing and recruiting		38,638	44,466	83,104	4,776	86	4,862	87,966	79,758
Technology		51,484	34,946	86,430	2,982	47	3,029	89,459	76,693
Student services		100,385	35,354	135,739	-	-	-	135,739	123,535
Office expense		22,178	25,524	47,702	2,742	49	2,791	50,493	68,417
Depreciation and amortization		129,172	148,658	277,830	15,967	289	16,256	294,086	283,569
Loss on disposal of assets		3,408	3,922	7,330	421	8	429	7,759	21,644
Other		-	-	-	-	-	-	-	715
Total Expenses		<u>\$ 2,644,550</u>	<u>\$ 2,466,256</u>	<u>\$ 5,110,806</u>	<u>\$ 470,984</u>	<u>\$ 8,109</u>	<u>\$ 479,093</u>	<u>\$ 5,589,899</u>	<u>\$ 5,632,625</u>

See notes to financial statements

Launch Expeditionary Learning Charter School

Statement of Cash Flows
Year Ended June 30, 2017
(with comparative amounts for the year ended June 30, 2016)

	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 378,204	\$ (66,668)
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation and amortization	294,086	283,569
Loss on disposal of property and equipment	7,759	21,644
Changes in operating assets and liabilities		
Grants and contracts receivable	(97,214)	(98,413)
Prepaid expenses and other current assets	(78,346)	26,792
Accounts payable and accrued expenses	(17,416)	(41,524)
Accrued payroll and payroll taxes	25,980	23,885
Refundable advances	(6,241)	(77,512)
Net Cash from Operating Activities	<u>506,812</u>	<u>71,773</u>
 CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(137,524)	(517,734)
Restricted cash	<u>(37)</u>	<u>(48)</u>
Net Cash from Investing Activities	<u>(137,561)</u>	<u>(517,782)</u>
 Net Change in Cash and Cash Equivalents	369,251	(446,009)
 CASH AND CASH EQUIVALENTS		
Beginning of year	<u>1,650,316</u>	<u>2,096,325</u>
 End of year	<u>\$ 2,019,567</u>	<u>\$ 1,650,316</u>

See notes to financial statements

Launch Expeditionary Learning Charter School

Notes to Financial Statements
June 30, 2017 and 2016

1. Organization and Tax Status

Nature of Organization

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. 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 2016-2017 academic year, the School provided education to approximately 302 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 6,796 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.

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.

Launch Expeditionary Learning Charter School

Notes to Financial Statements
June 30, 2017 and 2016

2. Summary of Significant Accounting Policies

Basis of Presentation and Use of Estimates

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"), which requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly actual results could differ from those estimates.

Net 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 statement 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, 2017 and 2016.

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, 2017 and 2016

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, whereby 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	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 the fair value. Assets were impaired in the amounts of \$20,000 and \$9,803 for the years ended June 30, 2017 and 2016.

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, 2017 and 2016

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, 2014.

Prior Year Summarized Comparative Financial Information

The financial statements include 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 U.S. GAAP. Accordingly, such information should be read in conjunction with the School's financial statements for the year ended June 30, 2016, from which the summarized information was derived.

Subsequent Events Evaluation by Management

Management has evaluated subsequent events for disclosure and/or recognition in the financial statements through the date that the financial statements were available to be issued, which date is October 10, 2017.

3. Grants and Contracts Receivable

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

Launch Expeditionary Learning Charter School

Notes to Financial Statements June 30, 2017 and 2016

4. Property and Equipment

Property and equipment consist of the following at June 30:

	<u>2017</u>	<u>2016</u>
Computers	\$ 356,587	\$ 336,567
Equipment	124,424	108,498
Furniture and fixtrures	266,486	235,497
Software	-	7,397
Leasehold improvments	<u>691,039</u>	<u>639,014</u>
	1,438,536	1,326,973
Accumulated depreciation and amortization	<u>(842,844)</u>	<u>(566,960)</u>
	<u>\$ 595,692</u>	<u>\$ 760,013</u>

Loss on disposal of assets was \$7,759 and \$21,644 for the years ended June 30, 2017 and 2016.

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 and \$6,666 for the years ended June 30, 2017 and 2016.

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, 2017, approximately \$1,770,000 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 both years ended June 30, 2017 and 2016, the School received approximately 95% of total revenue and support from the New York City Department of Education. If the charter school laws were modified, reducing or eliminating these revenues, the School's finances could be materially adversely affected.

Launch Expeditionary Learning Charter School

Notes to Financial Statements
June 30, 2017 and 2016

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 year ended June 30, 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, 2017 and 2016 were \$14,385 and \$13,490.

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 reimbursements. 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.

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**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, 2017, 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 10, 2017.

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 10, 2017