SCHALL & ASHENFARB Certified Public Accountants, LLC

IRA L. SCHALL, CPA
DAVID C. ASHENFARB, CPA
MICHAEL L. SCHALL, CPA

The Renaissance Charter School

Audited Financial Statements In Accordance With Government Auditing Standards

June 30, 2015

307 Fifth Avenue, 15th Floor
New York, New York 10016
Tel: (212) 268-2800 Fax: (212) 268-2805
www.schallandashenfarb.com

THE RENAISSANCE CHARTER SCHOOL

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of
The Renaissance Charter School

Report on the Financial Statements

We have audited the accompanying financial statements of The Renaissance Charter School (the "School"), which comprise the statement of financial position as of June 30, 2015, 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 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.

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Renaissance Charter School as of June 30, 2015, 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 30, 2015 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

Schall & Ashenfarb
Certified Public Accountants, LLC

October 30, 2015

THE RENAISSANCE CHARTER SCHOOL
STATEMENT OF FINANCIAL POSITION
AT JUNE 30, 2015

Assets

Cash and cash equivalents	$2,109,277
Restricted cash (Note 3)	75,009
Grant receivable - New York City (Note 4)	12
Government grants receivable	485,321
Pledges receivable	6,956
Prepaid expenses and other assets	91,419
Fixed assets, net (Note 5)	194,113
Total assets	$2,962,107

Liabilities and Net Assets

Liabilities:	
Accounts payable and accrued expenses	$1,849,937
Total liabilities	1,849,937
Net Assets:	
Unrestricted	1,112,170
Total net assets	1,112,170
Total liabilities and net assets	$2,962,107

The attached notes and auditors' report are an integral part of these financial statements.

THE RENAISSANCE CHARTER SCHOOL
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2015

Unrestricted:	
Public Support and Revenue:	
Public school district:	
Revenue - resident student enrollment	$7,556,161
Revenue - students with special education services	1,221,206
Subtotal - public school district revenue	8,777,367
Federal grants	716,179
State and city grants	250,631
Food program grants	374,589
Contributions	38,592
Program fees	32,881
Interest and other income	9,810
Total public support and revenue	10,200,049
Expenses:	
Program services:	
Regular education	6,527,773
Special education	1,914,572
Pre-kindergarten	211,365
Food program	689,625
Total program services	9,343,335
Supporting services:	
Management and general	1,136,485
Fundraising	126,392
Total supporting services	1,262,877
Total expenses	10,606,212
Change in net assets	(406,163)
Net assets - beginning	1,518,333
Net assets - ending	$1,112,170

The attached notes and auditors' report
are an integral part of these financial statements.

THE RENAISSANCE CHARTER SCHOOL
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2015

	Program Services					Supporting Services			
	Regular Education	Special Education	Pre-Kindergarten	Food Program	Total Program Services	Management and General	Fundraising	Total Supporting Services	Total Expenses
Salaries	$3,935,120	$1,216,744	$134,018	$262,118	$5,548,000	$633,510	$86,883	$720,393	$6,268,393
Employee benefits and payroll taxes	974,741	301,391	33,197	64,927	1,374,256	156,922	21,521	178,443	1,552,699
Pension contributions	580,288	179,426	19,763	38,653	818,130	93,419	12,812	106,231	924,361
Total personnel costs	5,490,149	1,697,561	186,978	365,698	7,740,386	883,851	121,216	1,005,067	8,745,453
Professional fees	208,374	37,494		76,520	322,388	205,684		205,684	528,072
Repairs and maintenance				7,675	7,675			0	7,675
Curriculum and classroom expenses	594,808	107,028	16,402		718,238			0	718,238
Professional development	91,021	28,144	3,100	6,063	128,328	14,652	2,010	16,662	144,990
Equipment and furnishings	16,708	5,166	569	11,499	33,942	6,675	369	7,044	40,986
Office expenses	28,057	8,675	956	1,869	39,557	8,667	619	9,286	48,843
Food services				213,730	213,730			0	213,730
Technology	20,525	6,346	699	1,367	28,937	3,305	453	3,758	32,695
Marketing and recruitment					0	1,072		1,072	1,072
Insurance	41,408	12,803	1,410	2,758	58,379	6,667	914	7,581	65,960
Depreciation	36,723	11,355	1,251	2,446	51,775	5,912	811	6,723	58,498
Total other than personnel costs	1,037,624	217,011	24,387	323,927	1,602,949	252,634	5,176	257,810	1,860,759
Total expenses	$6,527,773	$1,914,572	$211,365	$689,625	$9,343,335	$1,136,485	$126,392	$1,262,877	$10,606,212

The attached notes and auditors' report are an integral part of these financial statements.

THE RENAISSANCE CHARTER SCHOOL
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2015

Cash Flows from Operating Activities:	
Change in net assets	($406,163)
Adjustments to reconcile change in net assets	
to net cash used for operating activities:	
Depreciation	58,498
Changes in assets and liabilities:	
Restricted cash	58
Grant receivable - New York City	7,791
Government grants receivable	(184,581)
Pledges receivable	(1,956)
Prepaid expenses and other assets	(83,508)
Accounts payable and accrued expenses	440,083
Total adjustments	236,385
Net cash used for operating activities	(169,778)
Cash Flows from Investing Activities:	
Purchase of furniture and equipment	(29,284)
Net cash used for investing activities	(29,284)
Net decrease in cash and cash equivalents	(199,062)
Cash and cash equivalents - beginning	2,308,339
Cash and cash equivalents - ending	$2,109,277
Supplemental disclosures:	
Interest paid	$0
Taxes paid	$0

The attached notes and auditors' report
are an integral part of these financial statements.

THE RENAISSANCE CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

Note 1 - Organization and Nature of Activities

The Renaissance Charter School (the "School") is a PK-12 public charter school located in Jackson Heights, Queens, New York. Our mission is to foster educated, responsible young leaders who through their own personal growth will spark a renaissance in New York. The School is a publicly funded, privately managed school, which is independent of the New York City Department of Education ("NYCDOE"), and subject to certain administrative requirements. The School was originally granted its charter in May 2000 and its most recent charter renewal expires on June 30, 2019. During the year ended June 30, 2015, the School started its first full day pre-kindergarten class.

The School is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes has been reflected in the accompanying financial statements. They have not been designated as a private foundation.

Note 2 - Significant Accounting Policies

a. Basis of Presentation

The accompanying 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.

The School's net assets are classified based upon the existence or absence of donor-imposed restrictions as follows:

- *Unrestricted* – represent those resources for which there are no restrictions by donors as to their use.

- *Temporarily restricted* – represent those resources, the uses of which have been restricted by donors to specific purposes or the passage of time. The release from restrictions results from the satisfaction of the restricted purposes specified by the donor. Temporarily restricted contributions, the requirements of which are met in the year of donation, are reported as unrestricted. The School did not have any temporary restricted net assets at June 30, 2015.

- *Permanently restricted* – accounts for activity restricted by donors that must remain intact in perpetuity. The School did not have any permanently restricted net assets at June 30, 2015.

b. 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.

c. Concentration of Credit

Financial instruments which potentially subject the School to concentration of credit risk consist of cash, money market accounts, and a certificate of deposit which have been placed with a financial institution that management deems to be creditworthy. From time-to-time, cash balances may be in excess of insurance levels. At year-end there was a significant uninsured balance; however, the School has not experienced any losses due to bank failure.

d. Capitalization Policy
Property and equipment that exceed pre-determined amounts and have a useful life of greater than one year are capitalized at cost or at the 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 to 10 year life*
Building improvements – *10 year life*

e. Revenue – Public School District and Government Grants
The School receives grants from the New York State Education Department ("NYSED") and 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.

The terms of each government grant are reviewed to determine if they contain traits more closely associated with contributions or exchange transactions. Management has determined that all existing government grants are exchange transactions because they are similar in nature to contracts for service. The difference between cash received and revenue earned is reflected as grants receivable or refundable advances.

f. Contributions
Contributions are recorded as revenue upon the earlier of the receipt of cash or when a pledge is considered unconditional in nature. Contributions are available for general use in support of the School's mission, unless specifically restricted by the donor, in which case they are recorded in one of the restricted classes of net assets, depending on the nature of the restriction.

Contributions expected to be received within one year are recorded at net realizable value. Long-term pledges are recorded at fair value using a risk adjusted discount rate. Conditional contributions received are recognized as income when the conditions have been substantially met. All receivables at year-end are due to be collected within one year.

g. 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.

h. Functional Allocation of Expenses
The costs of providing various programs and other activities have been summarized on a functional basis in the accompanying financial statements. Accordingly, certain costs

have been allocated among the programs and supporting services benefited.

i. Use of Estimates
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 financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

j. Contingencies
Government contracts are subject to audit by the grantor. Management 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.

k. Accounting for Uncertainty in Income Taxes
The School does not believe its financial statements include any material, uncertain tax positions. Tax returns for periods ending June 30, 2012 and later are subject to examination by applicable taxing authorities.

l. Subsequent Events
Management has evaluated for potential recognition and disclosure events subsequent to the date of the statement of financial position through October 30, 2015, the date the financial statements were available to be issued.

Note 3 - Restricted Cash

An escrow account has been established to meet the requirement of the Board of Regents of the State of New York. 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 - Grant Receivable – New York City Department of Education

Beginning grant receivable	$7,803
Funding based on allowable FTE's	8,777,367
Advances received	(8,785,158)
Ending grant receivable	$12

Note 5 - Fixed Assets

At June 30, 2015, fixed assets consisted of the following:

Furniture and equipment	$430,776
Building improvements	377,847
	808,623
Less: accumulated depreciation	(614,510)
Furniture and equipment, net	$194,113

Note 6 – Significant Concentrations

The School is dependent upon grants from NYSED and NYCDOE to carry out its operations. For the year ending June 30, 2015, approximately 86% of the School's total public support and revenue was received from NYCDOE. If NYCDOE were to discontinue funding, this would have a severe economic impact on the School's ability to operate.

Note 7- Donated Space

The School is co-located with PS 255Q, a district 75 program, in a New York City Department of Education facility and utilizes approximately 62,000 square feet at no charge. The School was unable to determine a value for this service.

Note 8 - Multi-Employer Benefit Plan

The School participates in two multi-employer plans that provide defined benefits to certain contract labor covered by collective bargaining agreements. During the year ended June 30, 2015, the School contributed a total of $924,362 to both plans. The School's participation in these plans for the annual period ended June 30, 2015 is outlined below. The "EIN" column provides the Employer Identification Number ("EIN") of the plan. The Pension Protection Act ("PPA") zone status is not applicable because they are government plans.

Teachers' Retirement System of the City of New York Pension Plan as of June 30, 2015 consisted of the following:

EIN	Plan End Date	PPA Zone Status	Collective Bargaining Agreement Expiration Date	Contribution
90-0584726	6/30/15	N/A	10/31/2018	$902,618

Board of Education Retirement System Pension Plan as of June 30, 2015 consisted of the following:

EIN	Plan End Date	PPA Zone Status	Collective Bargaining Agreement Expiration Date	Contribution
13-3370714	6/30/15	N/A	various	$21,743

SCHALL
Certified Public Accountants LLC
& ASHENFARB

IRA L. SCHALL, CPA
DAVID C. ASHENFARB, CPA
MICHAEL L. SCHALL, CPA

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 Trustees of
The Renaissance 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 The Renaissance Charter School (the "School"), which comprise the statement of financial position as of June 30, 2015, 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 30, 2015.

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 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.

307 Fifth Avenue, 15th Floor
New York, New York 10016
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www.schallandashenfarb.com

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

Schall & Ashenfarb
Certified Public Accountants, LLC

October 30, 2015

THE RENAISSANCE CHARTER SCHOOL
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2015

Current Year:

None

Prior Year:

2014-001 - This matter has been corrected.

2014-002 - This matter has been corrected.

2014-003 - This matter has been corrected.

SCHALL & ASHENFARB Certified Public Accountants LLC

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Communication with Those Charged with Governance

To the Board of Trustees of
The Renaissance Charter School

We have audited the financial statements of The Renaissance Charter School ("the School"), for the year ended June 30, 2015, and have issued our report thereon dated October 30, 2015. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under Generally Accepted Auditing Standards
As stated in our engagement letter dated March 10, 2015, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with generally accepted accounting principles. Because of the concept of reasonable assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, fraud, or other illegal acts may exist and not be detected by us. Our audit of the financial statements does not relieve you or management of your responsibilities.

Planned Scope of Audit
We performed our audit according to the plan previously communicated to you in our engagement letter.

Significant Accounting Policies
Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the School are described in Note 2 to the financial statements.

In addition, there is one unrecorded transaction that we want to inform you of. Not-for-profit organizations are required to record in-kind contributions for rent received without charge. As you are aware, the School operates out of a public school building leased by New York City. Management has not recorded an adjustment for in-kind rent. It is fairly common practice for charter schools not to record in-kind rent because the value is impractical to determine. While this conflicts with generally accepted accounting principles, we feel the impact on the financial statements is not material because the same amount of revenue and expense is recorded; therefore there is no impact on the change in net assets or the balance sheet.

We did not note any other transactions entered into during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

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Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates used in preparing the financial statements were as follows:

- allocation of expenses into program, management and fundraising categories.
- useful lives of fixed assets and depreciation methods
- collectability of receivables from government agencies

We evaluated the key factors and assumptions used to develop the above estimates in determining that they are reasonable in relation to the financial statements taken as a whole. The disclosures in the financial statements are neutral, consistent and clear.

Significant Audit Adjustments

For purposes of this letter, professional standards define a significant audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. See attached schedule C for a listing of the adjustments posted Other than the adjustment passed on relating to in-kind space referred to earlier, there were no other known adjustments that have not been recorded.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management prior to retention as the auditors. There were no specific matters of this nature discussed prior to our retention.

Difficulties Encountered in Performing the Audit

There were no significant difficulties encountered in performing the audit

Management Representations

We have requested certain representations from management that are included in the management representation letter.

Industry updates

There are several new regulations that impact the nonprofit sector that we want you to be aware of. Some relate to changes that should be implemented as soon as possible and others that are still in the draft stage. To summarize:

Uniform Guidance on Federal Awards is in effect for 2015

In late December 2013, the U.S. Office of Management and Budget (OMB) took a major step to issuing its long awaited final grant reform rules in a document entitled Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards. Final regulations were posted in the Federal Register on December 26, 2013. Many changes were made to cost principles and **they are effective for new federal awards issued in 2015**. The changes to the audit requirements are effective for those entities with a year end of December 31, 2015 and later. It is possible that nonprofit organizations can have grants that follow the older rules and the newer rules, in the same fiscal year. That makes understanding the new rules that much more important. The following describes some of the key areas of change:

Streamlining of Related Circulars and Guidance

The eight existing OMB Circulars have been combined into one document including Circular A-133 and the various Cost Principles. Additionally, the cost principles have been incorporated into a single document with limited variations by type of entity. This new document supersedes the following OMB Circulars:

- A-21, Cost Principles for Educational Institutions
- A-87, Cost Principles for State, Local, and Indian Tribal Governments
- A-89, Federal Domestic Assistance Program Information
- A-102, Awards and Cooperative Agreements with State and Local Governments
- A-110, Uniform Administrative Requirements for Awards and Other Agreements with Institutions of Higher Education, Hospitals, and Other Nonprofit Organizations
- A-122, Cost Principles for Non-Profit Organizations
- A-133, Audits of States, Local Governments and Non-Profit Organizations
- It will also supersede those sections of A-50, Audit Follow-Up, related to Single Audits

Procurement

We are finding this to be the most difficult and time consuming new process to implement. That is because the guidance on procurement is more consistent with the older regulations that applied to states and local governments rather than nonprofit organizations. Therefore, major changes have been made to how nonprofits procure goods and services:

There are several new methods that must be followed:

- Micro purchases which applies to goods and services less than $3,000 and does not require competitive quotes but does require attempts at equitable distribution to avoid all purchases from the same vendor.
- Small purchases which apply to goods and services below the Simplified Acquisition Threshold ($150,000) and requires multiple rate quotes from qualified sources.
- Sealed bids when services are above the $150,000 level and which are most applicable for construction.

- Competitive proposals to be used when sealed bids are not practical.

Documentation which includes the detail of the purchase transaction must be maintained that includes support of the procurement method used and the basis of the award and price.

Indirect Costs

A *de minimus* 10% rate is allowed for those organizations that do not have a negotiated rate with the federal government or cognizant agency. This applies to sub-recipients as well.

Time and Effort Reporting

A number of changes are included in the documents which provides for more flexibility for entities in how they document time and effort. The key is having a strong system of internal control to capture how employees perform tasks related to grants on an after-the fact basis. Budgets are still not permitted, although guidance has loosened to allow interim costs to be charged based on budgets if it is representative of best estimates and can be adjusted to reflect actual results periodically. Current systems that meet the old requirements of OMB Circular A-122 (timesheets) will still be permitted.

Auditors will make note of the following changes to the single audit:

Single Audit Threshold for Audit Increased to $750,000

Entities that expend less than $750,000 in federal awards would not be required to undergo a single audit. This would represent an increase from the current $500,000 threshold for single audits which was established in 2003. Any entity that falls below the $750,000 threshold must make records available for review or audit by appropriate officials of the Federal agency, pass-through entity, and the Government Accountability Office.

For more information on this, please view an archived version of a webinar that we did on this topic that is saved on our website.

FASB issues exposure draft

The Financial Accounting Standards Board (FASB) has issued an exposure draft that is being touted as a once in a generation project. This statement, once passed, will have a major impact on the display of financial statements for all nonprofit organizations. As with all new FASB statements, this is still in the public comment period and there will be changes to the final regulation, however the following summary represents some of the objectives of the new regulations:

- The streamlining of net assets classes to two; net assets that contain donor restrictions and net assets that do not contain donor restrictions. This will have a major impact on organizations with endowments as the financial statements will no longer have a permanently restricted class of net assets. There will also be a change to how underwater endowments will be treated.
- Making financial statements more comparable between different entities, a defined measure of operations will become standard.
- Disclosures on liquidity will become more prominent, which will include allowing management to self define what they consider to be assets available for expenditure.
- The direct method of reporting cash flows will be required to enhance the understanding and usability of this statement. This should help the reader by having the statement of cash flows be more intuitive and provide more transparency on liquidity.

- Creating a 4 step process to help determine when revenue should be recognized that is based on the deliverable of goods and services. This would apply to membership, tuition, program fees, but would exclude contributions.

We will keep you notified of when these new changes become finalized.

Internal Controls - COSO Updates Integrated Framework
This new framework, which is recognized as the leading guidance for designing, implementing, and conducting a system of internal control, was updated to ensure its continued relevance. Nonprofits should begin utilizing the new framework in evaluating the effectiveness of its internal controls because this is an area their auditors will be focusing on.

Board Governance

- Overhead Myth - The three major watchdog groups have put out a call to action for donors to focus more on what a charity has done to meet its mission as opposed to how much money it spends on programmatic activity. We are seeing a shift of donations that are tied to achievement of milestones as opposed to funding general, non-specific areas.
- Nonprofit Revitalization Act - Became effective in 2014 and put what had previously been considered best practice into the nonprofit corporate law. The primary areas impact conflicts of interest (having policies that outline how a charity should review and approve transactions with board members, officers, their families and businesses and making sure that these transactions are in the best interest of the charity), monitoring of the independent audit, including establishing an audit committee of members of the board of directors (or having the full board of directors itself) that meet with the independent auditors regularly, establish whistleblower policies to provide employees with a method to report to the board any suspected fraud within the organization, and other administrative matters.

<u>Independence Issues</u>
Schall & Ashenfarb, CPA's, LLC is not aware of any relationships that our firm, or any employees thereof, has with The Renaissance Charter School or any of its board trustees that, in our professional judgment may impair our independence.

This information is intended solely for the use of the Board of Trustees and management of The Renaissance Charter School.

Schall + Ashenfarb

Schall & Ashenfarb
Certified Public Accountants, LLC

October 30, 2015

SCHALL & ASHENFARB Certified Public Accountants LLC

IRA L. SCHALL, CPA
DAVID C. ASHENFARB, CPA
MICHAEL L. SCHALL, CPA

Observations and Recommendations

To Management of
The Renaissance Charter School ("the School")

As a result of our audits for the years ending June 30, 2015 and June 30, 2014, we want to provide recommendations to strengthen controls, advise on best practices and provide follow-up comments to the issues raised related to the 2014 audit, which was performed simultaneous to 2015:

Payroll Processing

Payroll is one of the School's largest expenses. As such, it's important to establish internal control processes to help management identify errors and irregularities throughout the year. The Director of Operations and Finance is responsible for calling in the payroll to the payroll company and recording it in the accounting system. We recommend that a person with no other payroll responsibilities review the payroll registers to ensure that amounts paid are proper. This review can be performed by the Principal and can be documented by initialing the final payroll register.

Management informed us that the Principal started performing this review subsequent to year-end. We'll revisit this issue during next year's audit.

Compensation of Management

The form 990 contains a question about whether there is a formal process in place to determine compensation of the CEO, executive director, top management official and key employees. The question asks whether there is a review and approval by independent persons, based on comparability data, and if that process was contemporaneously documented. The process needs to be described in an attached schedule.

Management informed us that the School's employees are paid according to their union contracts and bonuses are determined according to meeting certain milestones. In order to provide transparency, we recommend that the School document the decision making process for executive compensation in its board meeting minutes. The documentation should include the type of comparable study used, information about the deliberations and the decision making process. The documentation should take place within 60 days of the decision or before the next board meeting, whichever comes first.

Operating Reserve Policy

During our review of the School's policies and procedures, we noted that the School does not currently have a written policy for operating reserves. The New York State Education Department ("NYSDOE") has recently indicated that Schools should have a viable operating reserve with a board

307 Fifth Avenue, 15th Floor
New York, New York 10016
Tel: (212) 268-2800 Fax: (212) 268-2805
www.schallandashenfarb.com

approved policy about the purpose and use of operating reserves. The purpose of the policy is to define and set goals for reserve funds, clearly describe authorization for use of reserves and outline requirements for reporting and monitoring. We recommend that the School consider adopting such a policy.

FY14 Findings Resolved in FY15

The audit for the year ended June 30, 2014 had several material weaknesses that were resolved for the fiscal year ended June 30, 2015:

- Prior period adjustments - there were none to the June 30, 2015 financial statements
- Account analysis for significant balance sheet accounts - these analysis were performed for the fiscal 2015 audit.
- Timeliness and completeness of audited financial statements submitted to funding sources - the audit fieldwork was completed in late October, prior to the November 1 submission deadline.

This communication is intended solely for the information and use of management, the board of trustees, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

Schall & Ashenfarb

Schall & Ashenfarb
Certified Public Accountants, LLC

October 30, 2015