

THE BROTHERHOOD/SISTER SOL, INC.

**INDEPENDENT AUDITOR'S REPORT
ON
FINANCIAL STATEMENTS**

AS OF AUGUST 31, 2018

AND

FOR THE YEAR THEN ENDED

THE BROTHERHOOD/SISTER SOL, INC.

- CONTENTS -

	<u>Page</u>
Independent Auditor's Report	1-2
Statement of Financial Position as of August 31, 2018	3
Statement of Activities for the year ended August 31, 2018	4
Statement of Functional Expenses for the year ended August 31, 2018	5
Statement of Cash Flows for the year ended August 31, 2018	6
Notes to Financial Statements	7-14
<u>Supplemental Information</u>	
Statement of Activities of Affiliate Project - Bro/Sis Brazil for the year ended August 31, 2018	15

MEMBERS
AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS
NEW YORK STATE SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
The Brotherhood/Sister Sol, Inc.
New York, New York

We have audited the accompanying financial statements of The Brotherhood/Sister Sol, Inc., which comprise the statement of financial position as of August 31, 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.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Brotherhood/Sister Sol, Inc. as of August 31, 2018 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.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplemental information contained on page 15 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplemental information is fairly stated in all material respects in relation to the financial statements as a whole.

A handwritten signature in cursive script that reads "Wynn Lane & Co., P.C." The signature is written in black ink and is positioned to the right of the date and location text.

New York, New York
January 16, 2019

**THE BROTHERHOOD/SISTER SOL, INC.
STATEMENT OF FINANCIAL POSITION
AS OF AUGUST 31, 2018**

ASSETS

Current Assets

Cash	\$ 2,691,878
Accounts receivable	34,624
Pledges, grants and contributions receivable - Notes 2 and 3	1,471,124
Due from governmental agency	110,000
Prepaid expenses	84,163
Inventories, at lower of cost or market	<u>20,031</u>
Total Current Assets	4,411,820

Non-Current Assets

Pledges and grants receivable - Notes 2 and 3	1,056,469
Construction in progress - Note 11	815,704
Fixed assets, at cost, net of accumulated depreciation and amortization of \$289,756 - Notes 2 and 4	1,955,016
Security deposits	<u>38,330</u>

Total Assets \$ 8,277,339

LIABILITIES AND NET ASSETS

LIABILITIES

Current Liabilities

Loan payable - Note 6	\$ 1,291,795
Accounts and accrued expenses payable	196,284
Agency funds payable - Note 5	<u>251</u>
Total Current Liabilities	1,488,330

Non-Current Liabilities

Loan payable - Note 6	1,000,000
Deferred rent payable - Note 8	<u>7,318</u>

Total Liabilities 2,495,648

NET ASSETS

Unrestricted	937,901
Temporarily restricted - Note 10	<u>4,843,790</u>

Total Net Assets 5,781,691

Total Liabilities and Net Assets \$ 8,277,339

See accompanying notes to financial statements.

THE BROTHERHOOD/SISTER SOL, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2018

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Operating Activities			
Support and Revenue			
Grants and contributions from:			
Foundations and trusts	\$ 733,701	\$ 4,786,411	\$ 5,520,112
Individuals	80,492	862,983	943,475
Corporations	36,591	126,757	163,348
Governmental agency	211,017		211,017
Direct mail	77,177		77,177
Special events, net of direct event expenses of \$426,278 - Notes 2 and 7	910,209		910,209
Program fees	92,129		92,129
In-kind contribution - Notes 2 and 7	158,496		158,496
Merchandise sales	2,357		2,357
Other income	817		817
Total Operating Support and Revenue	<u>2,302,986</u>	<u>5,776,151</u>	<u>8,079,137</u>
Net assets released from restrictions - Note 9:			
Satisfaction of program restrictions	1,540,456	(1,540,456)	-
Satisfaction of purpose restrictions	853,919	(853,919)	-
Satisfaction of time restrictions	300,000	(300,000)	-
	<u>2,694,375</u>	<u>(2,694,375)</u>	<u>-</u>
Total Operating Support and Revenue	<u>4,997,361</u>	<u>3,081,776</u>	<u>8,079,137</u>
Expenses			
Program Services	3,268,102		3,268,102
Administrative and general	516,599		516,599
Fund raising	521,510		521,510
Total Expenses	<u>4,306,211</u>		<u>4,306,211</u>
Change in Net Assets from Operating Activities	<u>691,150</u>	<u>3,081,776</u>	<u>3,772,926</u>
Non-Operating Activities			
Interest income	1		1
Loan interest expenses	(91,780)		(91,780)
Change in Net Assets from Non-Operating Activities	<u>(91,779)</u>		<u>(91,779)</u>
Change in Net Assets	<u>599,371</u>	<u>3,081,776</u>	<u>3,681,147</u>
Net Assets as of August 31, 2017	<u>338,530</u>	<u>1,762,014</u>	<u>2,100,544</u>
Net Assets as of August 31, 2018	<u>\$ 937,901</u>	<u>\$ 4,843,790</u>	<u>\$ 5,781,691</u>

See accompanying notes to financial statements.

**THE BROTHERHOOD/SISTER SOL, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED AUGUST 31, 2018**

	Program Services	Supporting Services		Total Program and Supporting Services
		Administrative and General	Fund Raising	
Salaries	\$ 1,541,499	\$ 214,994	\$ 275,281	\$ 2,031,774
Payroll taxes and employee benefits	376,278	52,478	67,260	496,016
Total Payroll and related expenses	1,917,777	267,472	342,541	2,527,790
Occupancy and space rental	125,900	20,251	20,251	166,402
Printing and publications	2,599	418	418	3,435
Equipment rental, repairs and maintenance	23,978	3,924	3,857	31,759
Telephone and communications	15,878	2,554	2,554	20,986
Meetings and conferences	2,676	1,814		4,490
Professional and consultant fees (including donated services of \$158,496)	366,182	95,038	116,429	577,649
Supplies and office expenses	94,355	50,372	81	144,808
Travel and transportation	98,847	11,035	399	110,281
Postage and mailing	5,883	1,745	168	7,796
Fees, dues and subscriptions	6,992	1,668		8,660
Insurance	18,222			18,222
Marketing and promotion	7,796	2,871	3,493	14,160
Honorarium and youth stipends	117,106	2,590		119,696
Event expenses			24,144	24,144
Collection loss			500	500
Staff development	3,688			3,688
Other program expenses	420,071	12,010	217	432,298
Moving expenses	20,466	3,292	3,292	27,050
Credit card processing fees, bank and finance charges		36,379		36,379
Miscellaneous	2,818	453	453	3,724
Total Expenses before depreciation	3,251,234	513,886	518,797	4,283,917
Depreciation	16,868	2,713	2,713	22,294
Total Expenses	\$ 3,268,102	\$ 516,599	\$ 521,510	\$ 4,306,211

See accompanying notes to financial statements.

**THE BROTHERHOOD/SISTER SOL, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED AUGUST 31, 2018**

Cash Flows from Operating Activities

Change in Net Assets	\$ 3,681,147
Adjustments to reconcile change in Net Assets to net cash provided by operating activities	
Depreciation and amortization	22,295
Changes in assets and liabilities:	
Increase in accounts receivable	(29,624)
Increase in pledges, grants and contributions receivable	(999,035)
Decrease in due from governmental agencies	10,946
Increase in prepaid expenses	(43,549)
Decrease in inventories	2,125
Increase in security deposits	(38,010)
Increase in accounts and accrued expenses payable	79,925
Increase in agency funds payable	91
Increase in deferred rent payable	<u>7,318</u>
Net Cash Provided by Operating Activities	<u>2,693,629</u>

Cash Flows from Investing Activities

Acquisition of fixed assets	(370,739)
Increase in construction in progress	(591,493)
Donated securities	9,836
Proceeds from sales of donated securities	(9,836)
Net Cash Used in Investing Activities	<u>(962,232)</u>

Cash Flows from Financing Activities

Proceeds from loans	1,000,000
Repayment of loans	(106,784)
Net Cash Provided by Financing Activities	<u>893,216</u>

Net Increase in Cash	2,624,613
Cash balance as of August 31, 2017	<u>67,265</u>
Cash balance as of August 31, 2018	<u>\$ 2,691,878</u>

Supplemental Disclosure of Cash Flow Information:

Cash paid during the year for interest	<u>\$ 83,087</u>
Gifts of securities	<u>\$ 9,836</u>

See accompanying notes to financial statements.

THE BROTHERHOOD/SISTER SOL, INC.
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2018

NOTE 1 ORGANIZATION

The Brotherhood/Sister Sol, Inc. (the "Organization") is a unique youth development organization recognized for providing an innovative and highly successful model of comprehensive, holistic and long-term support services to youth who range in ages 8-22 through which young people learn critical thinking skills toward becoming social change makers.

The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and similar provisions of the State Code.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- a) The accompanying financial statements of the organization have been prepared on the accrual basis of accounting.
- b) Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at fair value, which is measured as present value of their future cash flows. The discounts on those amounts are computed using risk-adjusted interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in contribution revenue. Conditional promises to give are not included as support until the conditions are substantially met.

All contributions are considered to be available for unrestricted use unless specifically restricted by donor. Contributions received and unconditional promises to give are measured at their fair value and are reported as an increase in net assets. The Organization reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets, or if they are designated as support for future periods. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are transferred to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

- c) Cash consists of cash held in checking and money market accounts and cash on hand. At year end and throughout the year, the Organization's cash balances were deposited in several high quality financial institutions which, at times, may exceed the current insured amount under Federal Deposit Insurance Corporation ("FDIC") protection. The Organization has not experienced any losses in such accounts and believes it is not exposed to any significant financial risk therein.

(Continue)

THE BROTHERHOOD/SISTER SOL, INC.
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2018

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

- d) Inventories are stated at the lower of cost, determined by the FIFO method, or market.
- e) The Organization capitalized all significant expenditures for fixed assets. All fixed assets are recorded at cost and depreciation is provided for on a straight-line basis over the estimated useful lives of the assets ranging from 3 to 39 years. Leasehold improvements are amortized over their estimated lives or the remaining term of the lease, whichever is shorter.
- f) The classification of an organization's net assets and its support, revenue and expenses is based on the existence or absence of donor-imposed restrictions. It requires that the amounts for each of the three classes of net assets, permanently restricted, temporarily restricted and unrestricted, be displayed in a statement of financial position and that the amounts of change in each of those classes of net assets be displayed in a statement of activities.

The classes of net assets are defined as follows:

Permanently Restricted - Net assets resulting from contributions and other inflows of assets whose use by the Organization is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Organization.

Temporarily Restricted - Net assets resulting from contributions and other inflows of assets whose use by the Organization is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Organization pursuant to those stipulations. When such stipulations end or are fulfilled, such temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities.

Unrestricted - The part of net assets that is neither permanently nor temporarily restricted by donor-imposed stipulations.

- g) Program fees are recognized as operating income in the period in which they are earned. Program fees received in advance are recorded as deferred revenue.
- h) Donated goods and services are reflected in the statement of activities at their fair values. Materials and other assets received as donations are recorded and reflected in the accompanying financial statements at their fair values at the date of receipt.

(Continue)

THE BROTHERHOOD/SISTER SOL, INC.
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2018

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

- i) The preparation of financial statements in conformity with generally accepted accounting principles 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. Actual results could differ from those estimates.
- j) The Organization adopted *Financial Accounting Standards Board* (“FASB”) guidance on uncertain income tax positions in its financial statements. The Organization recognizes the effect of tax positions only when they are more likely than not of being sustained. Management is not aware of any violation of its tax status as an organization exempt from income taxes, nor of any exposure to unrelated business income tax.

NOTE 3 PROMISES TO GIVE

Unconditional promises to give as of August 31, 2018 are as follows:

Receivable in less than one year	\$ 1,471,124
Receivable in one to five years	<u>1,160,000</u>
Total unconditional promises to give	2,631,124
Less: net present value discount	<u>(103,531)</u>
Net unconditional promises to give	<u>\$ 2,527,593</u>
Current	\$ 1,471,124
Non-current	<u>1,056,469</u>
Net unconditional promises to give	<u>\$ 2,527,593</u>

Long-term promises to give are recognized at fair value, using present value techniques and a discount rate of 5%.

THE BROTHERHOOD/SISTER SOL, INC.
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2018

NOTE 4 FIXED ASSETS

As of August 31, 2018, the costs of the assets and the related accumulated depreciation and amortization were as follows:

Land	\$ 1,246,883
Building and improvements	620,207
Furniture and equipment	53,351
Leasehold improvements	<u>324,331</u>
	2,244,772
Less: accumulated depreciation and amortization	(<u>289,756</u>)
Net	<u>\$ 1,955,016</u>

NOTE 5 AGENCY FUNDS PAYABLE

The Organization is the fiscal sponsor of Bro/Sis Brazil. The net assets for this sponsored project as of August 31, 2018 is reflected in the accompanying financial statements as agency funds payable.

NOTE 6 LOANS PAYABLE / RELATED PARTY TRANSACTION

On November 3, 2016, the Organization obtained a \$1,350,000 term loan from the Nonprofit Finance Fund to refinance the indebtedness secured by a mortgage on the property located at 512 West 143rd Street and 514 West 143rd Street. The agreement provides for, among other matters, an annual interest rate of 6.25% payable in equal monthly payments for interest and principal over twenty (20) years with balance of principal due on December 1, 2018. The maturity date has been extended to March 1, 2019. The loan is collateralized by the fixed assets of the Organization. As of August 31, 2018, the outstanding balance was \$1,291,795.

In addition, the Organization received an unsecured term loan of \$1,000,000 from a company in which a Board member held ownership. The agreement provides for, among other matters, an annual interest rate of 2.60% with principal and unpaid interest due on June 30, 2020. As of August 31, 2018, the outstanding balance was \$1,000,000.

(Continue)

THE BROTHERHOOD/SISTER SOL, INC.
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2018

NOTE 6 LOANS PAYABLE / RELATED PARTY TRANSACTION - (Continued)

Loans payable as of August 31, 2018 were as follows:

<u>Year ending August 31</u>		
2019		\$ 1,291,795
2020		<u>1,000,000</u>
	Total	2,291,795
	Current portion	<u>1,291,795</u>
	Non-current portion	<u>\$ 1,000,000</u>

NOTE 7 NON-CASH CONTRIBUTIONS

In-kind contributions received during the year consist of donated services of \$158,496. The Organization also received donated auction items of \$229,132 for their special events. Sold items of \$221,637 and inventories that were expired of \$6,800 were recorded in direct event expenses. The unsold items of \$7,495 were recorded in inventories.

NOTE 8 COMMITMENT

In December 2017, the Organization entered into a lease agreement for its transitional housing space under an operating lease expiring on December 31, 2021 with the rent commencement date of January 1, 2018. The future minimum lease payments, exclusive of certain escalation costs, are as follows:

<u>Year Ending August 31</u>		
2019		\$ 208,080
2020		215,723
2021		224,352
2022		<u>75,755</u>
	Total	<u>\$ 723,910</u>

For financial statement purposes, total rent expenses are accounted for on a straight-line basis. Accordingly, the accompanying statement of financial position reflects the liability for deferred rent for the excess of the rent expense charged under generally accepted accounting principles over the rent paid pursuant to the lease term. As of August 31, 2018, the amount of deferred rent payable was \$7,318.

THE BROTHERHOOD/SISTER SOL, INC.
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2018

NOTE 9 NET ASSETS RELEASED FROM RESTRICTIONS

The amounts released from restrictions during the year were as follows:

Satisfaction of program restrictions:	
Programmatic Support	\$ 350,000
College Tours	20,000
Environmental Education Program	30,000
International Summer Program	10,000
Liberation Program	120,000
Rites of Passage	965,956
Summer Day Camp	4,500
Youth Program	<u>40,000</u>
	<u>1,540,456</u>
Satisfaction of purpose restrictions:	
Capital Campaign	853,619
Remixed Media	<u>300</u>
	<u>853,919</u>
Satisfaction of time restrictions:	
General Support designated for 2018	<u>300,000</u>
Total	<u>\$ 2,694,375</u>

NOTE 10 TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets as of August 31, 2018 are available for the following:

Capital Campaign	\$ 2,116,000
General Support designated for future periods	601,511
Liberation Program	100,213
Programmatic Support	797,002
Rites of Passage	<u>1,229,064</u>
Total	<u>\$ 4,843,790</u>

THE BROTHERHOOD/SISTER SOL, INC.
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2018

NOTE 11 CAPITAL PROJECT

In 2016, the Organization started a campaign for the construction of the State-of-the-Art educational space and out-of-school-time facility (the "Capital Project") for young people. The estimated costs for the Capital Project is \$15 million dollars.

In 2016, the Organization received the following conditional promises to give totaling \$9,552,000 from the City and State of New York for the Capital Project acting by and through New York City Economic Development Corporation ("EDC") and the Dormitory Authority of the State of New York that are contingent upon the successful execution of the contracts. EDC will oversee funding committed by the City and State of New York and will pay capital project expenses on an reimbursement basis.

New York Council Speaker Melissa Mark-Viverito	\$ 5,152,000
New York Council Member Mark Levine	1,000,000
Manhattan District Attorney Cyrus Vance	2,000,000
Manhattan Borough President Gale Brewer	250,000
New York State Assemblyman Keith Wright	500,000
New York State Assemblyman Denny Farrell	500,000
New York State Assemblyman Robert Rodriquez	<u>150,000</u>
Total Conditional Promises to Give	<u>\$ 9,552,000</u>

As of August 31, 2018, the Organization has received \$3,580,853 in capital campaign contributions and incurred \$1,464,854 in capital project related expenses. Of which, \$815,704 was architecture, engineering, surveying and construction related fees. This amount is recorded as construction in progress in the statement of financial position and will be depreciated over the useful life of the building upon completion.

NOTE 12 CONTINGENCIES

The Organization receives City contracts and contracts with other organizations for its youth programs. These contracts may be subject to financial and compliance audit by the funding agencies. The amount of expenditures, if any, that may be disallowed by the funding agencies cannot be determined at this time. Hence, no provision for such disallowance has been reflected in the financial statements.

THE BROTHERHOOD/SISTER SOL, INC.
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2018

NOTE 13 FUNCTIONAL ALLOCATION OF EXPENSES

The costs of providing the various program and supporting services have been summarized on a functional basis in the statement of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefitted.

NOTE 14 SUBSEQUENT EVENTS

The Organization evaluated subsequent events through January 16, 2019, which is the date the financial statements were available to be issued. No subsequent events were identified that required adjustment to or disclosure within the financial statements.

**THE BROTHERHOOD/SISTER SOL, INC.
STATEMENT OF ACTIVITIES OF AFFILIATE PROJECT
BRO/SIS BRAZIL
FOR THE YEAR ENDED AUGUST 31, 2018**

Support and Revenue

Individual donation \$ 3,500

Expenses

Consulting fees 3,004

Program expense 355

Bank fee 50

Total Expenses 3,409

Change in Net Assets 91

Net Assets as of August 31, 2017 160

Net Assets as of August 31, 2018 \$ 251

See notes in the preceding section of this schedule.