

BRONX CHARTER SCHOOL FOR THE ARTS

**FINANCIAL STATEMENTS
AND
SUPPLEMENTARY INFORMATION**

JUNE 30, 2017 AND 2016

BRONX CHARTER SCHOOL FOR THE ARTS

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of
Bronx Charter School for the Arts

We have audited the accompanying financial statements of Bronx Charter School for the Arts (a nonprofit organization), which comprise the statements of financial position as of June 30, 2017 and 2016, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Bronx Charter School for the Arts as of June 30, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2017, on our consideration of Bronx Charter School for the Arts' 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 the 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 Bronx Charter School for the Arts' internal control over financial reporting and compliance.

Lotz + Carr, LLP

New York, New York
September 30, 2017

BRONX CHARTER SCHOOL FOR THE ARTS

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
Assets		
Cash and cash equivalents (Notes 1b and 8)	\$1,264,038	\$1,494,665
Unconditional promises to give (Notes 1c and 3)		
Unrestricted	262,590	120,159
Accounts receivable	28,213	32,581
Prepaid expenses and other current assets	68,058	2,675
Property and equipment (Notes 1f and 4)	103,938	125,500
Security deposit (Note 5)	170,000	170,000
Security deposit - capital expense reserve account (Note 5)	<u>55,325</u>	<u>99,474</u>
Total Assets	<u><u>\$1,952,162</u></u>	<u><u>\$2,045,054</u></u>
Liabilities and Net Assets		
Accounts payable and accrued expenses	\$ 77,131	\$ 124,464
Salaries, payroll taxes and benefits payable	314,227	318,426
Deferred resident student enrollment revenue (Note 6)	6,234	-
Deferred lease credit (Notes 1g and 5)	224,999	257,142
Deferred rent (Notes 1g and 5)	<u>488,668</u>	<u>474,020</u>
Total Liabilities	<u>1,111,259</u>	<u>1,174,052</u>
Commitment and Contingency (Note 5)		
Net Assets		
Unrestricted		
Board designated (Note 2a)	425,000	425,000
Other	<u>383,403</u>	<u>446,002</u>
Total Unrestricted	808,403	871,002
Temporarily restricted (Note 2b)	<u>32,500</u>	<u>-</u>
Total Net Assets	<u>840,903</u>	<u>871,002</u>
Total Liabilities and Net Assets	<u><u>\$1,952,162</u></u>	<u><u>\$2,045,054</u></u>

See notes to financial statements.

BRONX CHARTER SCHOOL FOR THE ARTS

STATEMENTS OF ACTIVITIES

YEARS ENDED JUNE 30, 2017 AND 2016

	2017			2016		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Revenues, Gains and Other Support						
Public School District:						
Resident Student Enrollment (Note 6)	\$ 4,967,013	\$ -	\$4,967,013	\$ 4,981,560	\$ -	\$4,981,560
Federal Title and Stimulus income	331,743	-	331,743	285,342	-	285,342
School Food Reimbursement	252,540	-	252,540	142,926	-	142,926
Contributions	270,341	32,500	302,841	254,962	-	254,962
Special events	73,154	-	73,154	124,727	-	124,727
Direct special events expense	(19,207)	-	(19,207)	(21,633)	-	(21,633)
Donated materials (Note 7)	-	-	-	147	-	147
Interest income	2,182	-	2,182	7,123	-	7,123
Other income	4,406	-	4,406	5,431	-	5,431
Net assets released from restrictions	-	-	-	22,000	(22,000)	-
Total Revenues, Gains and Other Support	5,882,172	32,500	5,914,672	5,802,585	(22,000)	5,780,585
Expenses						
Program Services						
Regular Education	3,537,143	-	3,537,143	3,034,060	-	3,034,060
Special Education	1,649,894	-	1,649,894	1,748,159	-	1,748,159
Total Program Services	5,187,037	-	5,187,037	4,782,219	-	4,782,219
Supporting Services						
Management and general	651,862	-	651,862	544,046	-	544,046
Fundraising and special events	105,872	-	105,872	210,534	-	210,534
Total Supporting Services	757,734	-	757,734	754,580	-	754,580
Total Expenses	5,944,771	-	5,944,771	5,536,799	-	5,536,799
Increase (decrease) in net assets	(62,599)	32,500	(30,099)	265,786	(22,000)	243,786
Net assets, beginning of year	871,002	-	871,002	605,216	22,000	627,216
Net Assets, End of Year	\$ 808,403	\$ 32,500	\$ 840,903	\$ 871,002	\$ -	\$ 871,002

See notes to financial statements.

BRONX CHARTER SCHOOL FOR THE ARTS

STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
Cash Flows From Operating Activities		
Increase (decrease) in net assets	\$ (30,099)	\$ 243,786
Adjustments to reconcile increase (decrease) in net assets to net cash provided (used) by operating activities:		
Depreciation	35,252	37,777
Deferred rent	14,648	33,946
Credit towards rent	(32,143)	(32,143)
(Increase) decrease in:		
Unconditional promise to give	(142,431)	(12,322)
Accounts receivable	4,368	9,972
Prepaid expenses and other current assets	(65,383)	6,008
Security deposit - capital expense reserve account	44,149	(13,792)
Increase (decrease) in:		
Accounts payable and accrued expenses	(47,333)	39,239
Salaries, payroll taxes and benefits payable	(4,199)	29,517
Deferred resident student enrollment revenue	6,234	(2,755)
Net Cash Provided (Used) By Operating Activities	<u>(216,937)</u>	<u>339,233</u>
Cash Flows From Investing Activities		
Purchase of property and equipment	<u>(13,690)</u>	<u>(24,572)</u>
Net increase (decrease) in cash and cash equivalents	(230,627)	314,661
Cash and cash equivalents, beginning of year	<u>1,494,665</u>	<u>1,180,004</u>
Cash and Cash Equivalents, End of Year	<u><u>\$1,264,038</u></u>	<u><u>\$1,494,665</u></u>

See notes to financial statements.

BRONX CHARTER SCHOOL FOR THE ARTS**NOTES TO FINANCIAL STATEMENTS****JUNE 30, 2017 AND 2016****Note 1 - Organization and Summary of Significant Accounting Policies****a - Organization**

Bronx Charter School for the Arts ("BCSA") is an education not-for-profit institution formed to operate a charter school in accordance with an agreement with the Board of Regents of the University of the State of New York under a provisional charter valid for a fourth term of five years commencing July 1, 2015.

BCSA is a public elementary school that opened in the South Bronx in September 2003. The school is founded on the principle that art education is a catalyst for the academic and social success of all students. BCSA began with 160 students in grades K-3 during the school year beginning September 2003, and has grown to serve approximately 300 students in grades K-5.

b - Cash and Cash Equivalents

For purposes of the statement of cash flows, BCSA considers all highly liquid debt instruments, including money market accounts, to be cash equivalents.

c - Contributions and Unconditional Promises to Give

Contributions are recognized when the donor makes a promise to give to BCSA, that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

d - Financial Statement Presentation

BCSA is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

e - Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

f - Property and Equipment

Property and equipment are recorded at cost and are depreciated using the straight-line method over the estimated useful lives of the assets. Leasehold improvements are depreciated over the term of the lease.

BRONX CHARTER SCHOOL FOR THE ARTS**NOTES TO FINANCIAL STATEMENTS****JUNE 30, 2017 AND 2016****Note 1 - Organization and Summary of Significant Accounting Policies (continued)****g - Rent Expense**

BCSA records rent expense associated with its facility on a straight-line basis over the life of the lease (Note 5). The difference between the straight-line amount and the amount actually paid during the year is recorded as a liability and an expense in the accompanying financial statements. The deferred lease credit is credited towards rent expense over the life of the lease (Note 5).

h - Tax Status

Bronx Charter School for the Arts is a not-for-profit organization exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and has been designated as an organization which is not a private foundation.

i - Subsequent Events

BCSA has evaluated subsequent events through September 30, 2017, the date that the financial statements are considered available to be issued.

Note 2 - Net Assets**a - Board Designated**

BCSA established a board designated fund to promote its long-term financial stability.

b - Temporarily Restricted Net Assets

Temporarily restricted net assets are restricted to future programs and periods.

Note 3 - Unconditional Promises to Give

Unconditional promises to give are due within one year. Uncollectible promises are expected to be insignificant.

BRONX CHARTER SCHOOL FOR THE ARTS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

Note 4 - Property and Equipment

A summary of property and equipment at June 30 is as follows:

	<u>Life</u>	<u>2017</u>	<u>2016</u>
Computer equipment	5 years	\$179,253	\$168,517
Furniture and other office equipment	5-7 years	309,239	307,332
Leasehold improvements	Life of lease	119,605	119,605
Teaching materials	3 years	55,298	55,298
Visual arts equipment	5 years	2,561	2,561
Musical instruments	5 years	<u>31,431</u>	<u>30,384</u>
		697,387	683,697
Less: Accumulated depreciation		<u>(593,449)</u>	<u>(558,197)</u>
		<u>\$103,938</u>	<u>\$125,500</u>

Depreciation expense for the years ended June 30, 2017 and 2016 was \$35,252 and \$37,777, respectively.

Note 5 - Net Lease

BCSA leases the building located at 950-954 Longfellow Avenue, Bronx, NY from Civic Builders (the "Owner") under the terms of a net lease amended in July of 2010. The lease expires June 30, 2024, with a ten-year renewal option. The annual fixed rent of \$540,012 increases by 3% cumulatively each year on August 1. In addition, the landlord paid BCSA \$450,000, which was recorded as a deferred lease credit and is credited towards rent expense, over the life of the lease.

As part of the amendment, BCSA is required to fund \$25,000 into a tenant capital expense reserve account, on July 1 of each year. BCSA is entitled to be reimbursed for repairs and replacements pursuant to its lease obligations up to the balance available in the Reserve. The owner may use proceeds in the account to pay for any repairs and replacements required to be performed by BCSA if BCSA fails to do so. After expiration of the lease, remaining funds in the Reserve will be refunded to BCSA. In the event of default, landlord will keep the funds.

BRONX CHARTER SCHOOL FOR THE ARTS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

Note 6 - Resident Student Enrollment

BCSA's per pupil allocation is determined by the New York State Department of Education using New York State's charter school funding formula.

The deferred portion represents per pupil revenue for the 2018 school year.

Note 7 - Donated Materials

Donated materials consisted of \$147 as of June 30, 2016.

Note 8 - Concentrations of Credit Risk

BCSA maintains cash balances at various institutions insured by the Federal Deposit Insurance Corporation.

Note 9 - Functional Allocation of Expenses

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

SUPPLEMENTARY INFORMATION



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**INDEPENDENT AUDITORS' REPORT
ON SUPPLEMENTARY INFORMATION**

To the Board of Trustees of
Bronx Charter School for the Arts

We have audited the financial statements of Bronx Charter School for the Arts as of and for the years ended June 30, 2017 and 2016, and our report thereon dated September 30, 2017, which expressed an unmodified opinion on those financial statements, appears on pages 1 and 2. Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedule of Functional Expenses for the year ended June 30, 2017 with comparative totals for 2016 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 audits 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 information is fairly stated in all material respects in relation to the financial statements as a whole.

Lutz + Carr, LLP

New York, New York
September 30, 2017

BRONX CHARTER SCHOOL FOR THE ARTS

SCHEDULE OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2017 WITH COMPARATIVE TOTALS FOR 2016

	Number of Positions	Program Services			Supporting Services			2017	2016
		Regular Education	Special Education	Total	Management and General	Fundraising and Special Events	Total	Total Expenses	Total Expenses
Personnel Services Costs									
Administrative staff personnel	21	\$ 446,808	\$ 347,340	\$ 794,148	\$ 267,091	\$ 38,900	\$305,991	\$1,100,139	\$ 918,334
Instructional personnel	51	1,604,438	588,246	2,192,684	-	-	-	2,192,684	2,164,977
Non-instructional personnel	16	36,850	9,212	46,062	663	-	663	46,725	45,855
Total Personnel Services Costs		2,088,096	944,798	3,032,894	267,754	38,900	306,654	3,339,548	3,129,166
Fringe benefits and payroll taxes		462,262	209,159	671,421	59,277	8,612	67,889	739,310	767,225
Legal service		-	-	-	4,703	-	4,703	4,703	16,848
Accounting and audit services		-	-	-	28,205	-	28,205	28,205	24,823
Other purchased, professional and consulting services		69,691	35,618	105,309	128,130	13,314	141,444	246,753	143,807
Building, land, rent and lease		405,864	183,641	589,505	52,043	7,561	59,604	649,109	645,041
Repairs and maintenance		116,820	52,858	169,678	14,980	2,176	17,156	186,834	97,223
Insurance		29,456	13,328	42,784	3,776	549	4,325	47,109	46,849
Utilities		41,225	18,653	59,878	5,286	768	6,054	65,932	51,540
Supplies and materials		30,470	18,596	49,066	63	9	72	49,138	108,487
Equipment and furnishings		1,155	708	1,863	-	-	-	1,863	9,579
Staff development		37,238	22,824	60,062	30,595	-	30,595	90,657	75,895
Marketing and recruitment		5,454	3,343	8,797	977	-	977	9,774	11,472
Technology		17,683	8,615	26,298	1,776	258	2,034	28,332	27,519
Food service		112,116	68,716	180,832	38,123	-	38,123	218,955	165,415
Student services		28,079	17,210	45,289	-	-	-	45,289	37,876
Office expense		53,648	32,881	86,529	7,692	1,923	9,615	96,144	76,789
Indirect benefit expenses		-	-	-	-	31,305	31,305	31,305	31,264
Depreciation		22,042	9,973	32,015	2,826	411	3,237	35,252	37,777
Other		15,844	8,973	24,817	5,656	86	5,742	30,559	32,204
Total Expenses, 2017		<u>\$3,537,143</u>	<u>\$1,649,894</u>	<u>\$5,187,037</u>	<u>\$ 651,862</u>	<u>\$ 105,872</u>	<u>\$757,734</u>	<u>\$5,944,771</u>	
Total Expenses, 2016		<u>\$3,034,060</u>	<u>\$1,748,159</u>	<u>\$4,782,219</u>	<u>\$ 544,046</u>	<u>\$ 210,534</u>	<u>\$754,580</u>		<u>\$5,536,799</u>

See independent auditors' report on supplementary information.



**INDEPENDENT AUDITORS' 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
Bronx Charter School for the Arts

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 Bronx Charter School for the Arts (a nonprofit organization), which comprise the statement of financial position as of June 30, 2017, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated September 30, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Bronx Charter School for the Arts' 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 Bronx Charter School for the Arts' internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization'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 Bronx Charter School for the Arts' 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 Organization'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 Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

New York, New York
September 30, 2017

