
**BRONX LIGHTHOUSE CHARTER SCHOOL, INC.
AND AFFILIATE**

Consolidated Financial Statements
(Together with Independent Auditors' Report)

Years Ended June 30, 2017 and 2016

M A R K S P A N E T H

ACCOUNTANTS & ADVISORS

**BRONX LIGHTHOUSE CHARTER SCHOOL, INC. AND AFFILIATE
CONSOLIDATED FINANCIAL STATEMENTS**

(Together with Independent Auditors' Report)

YEARS ENDED JUNE 30, 2017 AND 2016

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INDEPENDENT AUDITORS' REPORT

The Board of Trustees
Bronx Lighthouse Charter School, Inc.
and Affiliate
Bronx, New York

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Bronx Lighthouse Charter School, Inc. and Affiliate (collectively, the "School") which comprise the consolidated statements of financial position as of June 30, 2017 and 2016, and the related consolidated statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of the School as of June 30, 2017 and 2016, and the changes in their net assets and their cash flows for the years then ended in conformity 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 31, 2017, on our consideration of the School's internal control over financial reporting and on our tests of their 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. This 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.

Other Matter

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information on pages 17-20 is presented for purposes of additional analysis and is not a required part of the consolidated 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements, and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated 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 consolidated financial statements as a whole.



Purchase, New York
October 31, 2017

BRONX LIGHTHOUSE CHARTER SCHOOL, INC. AND AFFILIATE
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS OF JUNE 30, 2017 AND 2016

| | <u>2017</u> | <u>2016</u> |
|--|-----------------------------|-----------------------------|
| ASSETS | | |
| Cash (including restricted cash of \$2,920,213 and \$2,418,154, respectively)(Notes 3 and 12) | \$ 7,116,585 | \$ 5,783,681 |
| Receivables (Note 4) | 143,962 | 457,547 |
| Prepaid expenses | 49,746 | 137,552 |
| Security deposits | 28,850 | 45,685 |
| Land | 2,231,880 | 2,231,880 |
| Fixed assets - net (Notes 2E and 5) | <u>11,596,377</u> | <u>11,989,911</u> |
| TOTAL ASSETS | <u><u>\$ 21,167,400</u></u> | <u><u>\$ 20,646,256</u></u> |
| LIABILITIES | | |
| Accounts payable and accrued expenses | \$ 174,441 | \$ 230,361 |
| Accrued payroll and payroll taxes | 698,850 | 348,999 |
| Accrued compensated absences | 88,451 | 110,821 |
| Due to NYC - Department of Education | 129,526 | - |
| Capital leases (Note 6) | - | 44,129 |
| Loans payable (Note 7) | <u>13,340,000</u> | <u>13,340,000</u> |
| TOTAL LIABILITIES | <u>14,431,268</u> | <u>14,074,310</u> |
| COMMITMENTS AND CONTINGENCIES | | |
| NET ASSETS (Note 2C) | | |
| Unrestricted-Board Designated for Facility | 937,940 | 937,940 |
| Unrestricted | <u>5,798,192</u> | <u>5,634,006</u> |
| TOTAL UNRESTRICTED NET ASSETS | <u>6,736,132</u> | <u>6,571,946</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u><u>\$ 21,167,400</u></u> | <u><u>\$ 20,646,256</u></u> |

The accompanying notes are an integral part of these financial statements.

BRONX LIGHTHOUSE CHARTER SCHOOL, INC. AND AFFILIATE
CONSOLIDATED STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

| | <u>2017</u> | <u>2016</u> |
|--|----------------------------|----------------------------|
| REVENUE AND SUPPORT: | | |
| Student enrollment fees (Note 2F) | \$ 10,052,829 | \$ 10,022,746 |
| Federal grants | 424,898 | 513,387 |
| Public support | 27,095 | 29,752 |
| Interest | 10,888 | 9,388 |
| Other | 72,557 | 21,993 |
| In-kind contributions (Note 11) | <u>642,101</u> | <u>640,476</u> |
| Total revenue and support | <u>11,230,368</u> | <u>11,237,742</u> |
| EXPENSES: | | |
| Program services: | | |
| Educational services | 8,778,509 | 8,441,044 |
| BLCS property holding company | <u>996,238</u> | <u>990,157</u> |
| Total program expenses | <u>9,774,747</u> | <u>9,431,201</u> |
| Supporting services: | | |
| Management and general | <u>1,291,435</u> | <u>1,509,702</u> |
| Total supporting services | <u>1,291,435</u> | <u>1,509,702</u> |
| Total expenses | <u>11,066,182</u> | <u>10,940,903</u> |
| CHANGE IN UNRESTRICTED NET ASSETS | 164,186 | 296,839 |
| NET ASSETS - Beginning of Year | <u>6,571,946</u> | <u>6,275,107</u> |
| NET ASSETS - End of Year | <u><u>\$ 6,736,132</u></u> | <u><u>\$ 6,571,946</u></u> |

The accompanying notes are an integral part of these financial statements.

BRONX LIGHTHOUSE CHARTER SCHOOL, INC. AND AFFILIATE
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2017

| | PROGRAM SERVICES | | | SUPPORTING SERVICES | |
|--|----------------------|-------------------------------|------------------------|------------------------|----------------------|
| | EDUCATIONAL SERVICES | BLCS PROPERTY HOLDING COMPANY | TOTAL PROGRAM SERVICES | MANAGEMENT AND GENERAL | TOTALS |
| Salaries | \$ 5,065,962 | \$ - | \$ 5,065,962 | \$ 578,230 | \$ 5,644,192 |
| Payroll taxes and fringe benefits | 960,459 | - | 960,459 | 112,680 | 1,073,139 |
| Total Salaries and Related Costs | 6,026,421 | - | 6,026,421 | 690,910 | 6,717,331 |
| Professional fees and consultants | 67,607 | 21,377 | 88,984 | 82,631 | 171,615 |
| Management fees (Notes 9 and 13) | 288,695 | - | 288,695 | 192,463 | 481,158 |
| Contracted services - other | 112,218 | - | 112,218 | 74,811 | 187,029 |
| Supplies and equipment purchases (Note 2E) | 303,882 | - | 303,882 | 53,627 | 357,509 |
| Advertising | 699 | - | 699 | - | 699 |
| Food | 20,163 | - | 20,163 | - | 20,163 |
| Insurance | 142,621 | 2,054 | 144,675 | 25,531 | 170,206 |
| Library | 31,914 | - | 31,914 | - | 31,914 |
| Repairs and maintenance | 254,771 | - | 254,771 | 44,960 | 299,731 |
| Printing | 57,823 | - | 57,823 | - | 57,823 |
| Staff development and recruitment | 143,603 | - | 143,603 | - | 143,603 |
| Telecommunications | 44,078 | - | 44,078 | 7,778 | 51,856 |
| Field trips and other activities | 176,664 | - | 176,664 | - | 176,664 |
| Utilities | 175,523 | - | 175,523 | 30,974 | 206,497 |
| In-kind contribution - facility (Note 11) | 497,250 | - | 497,250 | 87,750 | 585,000 |
| In-kind contribution - textbooks (Note 11) | 57,101 | - | 57,101 | - | 57,101 |
| Other | 201,408 | 69 | 201,477 | - | 201,477 |
| Interest | 6,808 | 639,340 | 646,148 | - | 646,148 |
| Depreciation and amortization (Note 2E) | 169,260 | 333,398 | 502,658 | - | 502,658 |
| Total Other Expenses | 2,752,088 | 996,238 | 3,748,326 | 600,525 | 4,348,851 |
| Total Operating Expenses | \$ 8,778,509 | \$ 996,238 | \$ 9,774,747 | \$ 1,291,435 | \$ 11,066,182 |

The accompanying notes are an integral part of these financial statements.

BRONX LIGHTHOUSE CHARTER SCHOOL, INC. AND AFFILIATE
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2016

| | PROGRAM SERVICES | | | SUPPORTING SERVICES | |
|--|----------------------|-------------------------------|------------------------|------------------------|----------------------|
| | EDUCATIONAL SERVICES | BLCS PROPERTY HOLDING COMPANY | TOTAL PROGRAM SERVICES | MANAGEMENT AND GENERAL | TOTALS |
| Salaries | \$ 4,836,906 | \$ - | \$ 4,836,906 | \$ 507,741 | \$ 5,344,647 |
| Payroll taxes and fringe benefits | 1,319,785 | - | 1,319,785 | 109,017 | 1,428,802 |
| Total Salaries and Related Costs | 6,156,691 | - | 6,156,691 | 616,758 | 6,773,449 |
| Professional fees and consultants | 69,553 | 8,700 | 78,253 | 78,866 | 157,119 |
| Management fees (Notes 9 and 13) | - | - | - | 275,000 | 275,000 |
| Contracted services - other | 99,753 | - | 99,753 | 88,971 | 188,724 |
| Supplies and equipment purchases (Note 2E) | 390,037 | - | 390,037 | 68,053 | 458,090 |
| Advertising | - | - | - | 322 | 322 |
| Food | 26,908 | - | 26,908 | - | 26,908 |
| Insurance | - | - | - | 171,367 | 171,367 |
| Library | 29,849 | - | 29,849 | - | 29,849 |
| Repairs and maintenance | 293,227 | - | 293,227 | 32,581 | 325,808 |
| Printing | 57,479 | - | 57,479 | - | 57,479 |
| Staff development and recruitment | 128,779 | - | 128,779 | - | 128,779 |
| Telecommunications | 33,268 | - | 33,268 | 3,696 | 36,964 |
| Field trips and other activities | 100,745 | - | 100,745 | - | 100,745 |
| Utilities | 208,688 | - | 208,688 | 23,188 | 231,876 |
| In-kind contribution - facility (Note 11) | 526,500 | - | 526,500 | 58,500 | 585,000 |
| In-kind contribution - textbooks (Note 11) | 55,476 | - | 55,476 | - | 55,476 |
| Other | 77,690 | 5,797 | 83,487 | 92,399 | 175,886 |
| Interest | 7,113 | 641,091 | 648,204 | - | 648,204 |
| Depreciation and amortization (Note 2E) | 179,288 | 334,569 | 513,857 | - | 513,857 |
| Total Other Expenses | 2,284,353 | 990,157 | 3,274,510 | 892,943 | 4,167,453 |
| Total Operating Expenses | \$ 8,441,044 | \$ 990,157 | \$ 9,431,201 | \$ 1,509,702 | \$ 10,940,903 |

The accompanying notes are an integral part of these financial statements.

BRONX LIGHTHOUSE CHARTER SCHOOL, INC. AND AFFILIATE
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

| | <u>2017</u> | <u>2016</u> |
|---|----------------------------|----------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Change in net assets | \$ 164,186 | \$ 296,839 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | |
| Depreciation and amortization | 502,658 | 513,857 |
| Changes in: | | |
| Receivables | 313,585 | (63,587) |
| Prepaid expenses | 87,806 | (95,199) |
| Security deposit | 16,836 | - |
| Accounts payable and accrued expenses | (55,920) | 39,108 |
| Accrued payroll and payroll taxes | 349,851 | (180,325) |
| Accrued compensated absences | (22,370) | 1,408 |
| Due to NYC - Department of Education | 129,526 | - |
| Deferred revenue | - | (36,552) |
| Net cash provided by operating activities | <u>1,486,158</u> | <u>475,549</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Purchase of fixed assets | <u>(109,125)</u> | <u>(84,455)</u> |
| Net cash used in investing activities | <u>(109,125)</u> | <u>(84,455)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Payment of capital leases | <u>(44,129)</u> | <u>(141,333)</u> |
| Net cash used in financing activities | <u>(44,129)</u> | <u>(141,333)</u> |
| NET INCREASE IN CASH | 1,332,904 | 249,761 |
| CASH, Beginning of Year | <u>5,783,681</u> | <u>5,533,920</u> |
| CASH, End of Year | <u><u>\$ 7,116,585</u></u> | <u><u>\$ 5,783,681</u></u> |
| SUPPLEMENTAL DATA: | | |
| Interest paid | <u><u>\$ 646,148</u></u> | <u><u>\$ 648,204</u></u> |

The accompanying notes are an integral part of these financial statements.

BRONX LIGHTHOUSE CHARTER SCHOOL, INC. AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

NOTE 1 – ORGANIZATION AND PURPOSE

Bronx Lighthouse Charter School, Inc., a New York not-for-profit education corporation, together with its wholly owned subsidiary, BLCS Property Holding Company, Inc. ("BPHC" or "Affiliate") (collectively, the "School"), offers education services in classes from kindergarten through grade eleven in the Bronx, New York. The School is a public charter school incorporated on May 18, 2004, pursuant to the New York Charter School Act of 1998. In March 2014, the School was granted a second charter renewal through June 30, 2019 by the Chancellor of the City of New York on behalf of the New York State Education Department. The School's major source of revenue is provided by the New York City Department of Education (NYC DOE).

The School qualifies as tax-exempt organization under Section 501(c) (3) of the Internal Revenue Code, and accordingly, is not subject to federal and state income taxes.

The School is the sole owner of BPHC, a Delaware not-for-profit corporation, which was incorporated on March 16, 2011, for the purpose of holding real estate to be used by the School's college preparatory academy.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A) ***Basis of Accounting*** - The accompanying consolidated financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

B) ***Principles of Consolidation*** - The consolidated financial statements reflect the accounts and operations of the School and its wholly owned subsidiary. All intercompany balances and transactions have been eliminated in the consolidated financial statements.

C) ***Financial Statement Presentation*** - The School reports its financial position and operating activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. The classification of net assets and related support, revenue and expenses is based on the presence or absence of donor-imposed restrictions.

These classifications are defined as follows:

Permanently Restricted - net assets, generally of an endowment nature, resulting from contributions and other inflows of assets whose use by the recipient is limited by donor-imposed stipulation that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the recipient. The School has no permanently restricted net assets.

Temporarily Restricted - net assets resulting from contributions and other inflows of assets whose use by the recipient is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions taken pursuant to those stipulations. When stipulations terminate or are fulfilled, the amounts involved are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. The School has no temporarily restricted net assets.

Unrestricted - unexpended net assets that are neither permanently nor temporarily restricted by donor-imposed stipulations.

BRONX LIGHTHOUSE CHARTER SCHOOL, INC. AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D) ***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 reported amounts of 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.

E) ***Fixed Assets*** - Fixed assets such as furniture and equipment are carried at cost less accumulated depreciation, which is provided on the straight-line method over the estimated useful lives of the respective assets (3 – 7 years). Building and building improvements are depreciated over 39 years. Leasehold improvements are capitalized at cost and amortized over the lesser of the term of the lease or the estimated useful life of the improvement. It is the School's policy to capitalize property, plant and equipment and leasehold improvements in excess of \$1,000 on a per unit basis. Expenditures for repairs and maintenance are expensed as incurred.

F) ***Revenue*** - The School is reimbursed by the NYC DOE based on the approved per pupil operating expenses of the public school district in which the pupil resides. The amount received each year from the resident district is the product of the approved per pupil operating expenses and the full time equivalent student enrollment of the School. The School is also the recipient of awards from other governmental entities. The awards are subject to compliance requirements and financial audits by the funding source. The accompanying consolidated financial statements make no provision for possible disallowances.

Student enrollment fees received for future years are deferred to the applicable year and are shown as deferred revenue on the statements of financial position.

In-kind contributions are reflected as contributions at their fair value at the date of the donation and are reported as unrestricted support unless explicit donor stipulations specify how donated assets must be used.

G) ***Tax Status*** - The School believes it has no uncertain tax positions as of June 30, 2017 and 2016 in accordance with Accounting Standards Codification ("ASC") Topic 740, "Income Taxes," which provides standards for establishing and classifying any tax provisions for uncertain tax positions.

H) ***Functional Allocation of Expenses*** - The direct costs of providing educational programs and other activities have been summarized on a functional basis in the statement of activities. In addition, certain indirect costs have been allocated among the programs.

I) ***Reclassifications*** - Certain line items in the June 30, 2016 financial statements have been reclassified to conform to the June 30, 2017 presentation.

BRONX LIGHTHOUSE CHARTER SCHOOL, INC. AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

NOTE 3 – RESTRICTED CASH

Restricted cash consists of the following:

| | <u>2017</u> | <u>2016</u> |
|------------------------|---------------------|---------------------|
| A) Facility reserve | \$ 490,853 | \$ 489,874 |
| B) Sinking fund | 2,243,140 | 1,742,093 |
| C) NYC DOE contingency | 70,302 | 70,288 |
| D) Lease reserve | <u>115,918</u> | <u>115,899</u> |
| Totals | <u>\$ 2,920,213</u> | <u>\$ 2,418,154</u> |

- A) The School has created a facility reserve for future major repairs and replacement to the building. As of June 30, 2017 and 2016, the balance in the facility replacement reserve was \$490,853 and \$489,874, respectively.
- B) The School set up a new cash account as required by the facility financing covenants (the "sinking fund") that will be used to pay off future debt. As of June 30, 2017 and 2016, the sinking fund was \$2,243,140 and \$1,742,093, respectively.
- C) At the request of the New York City Department of Education (NYC DOE), the School established a dissolution escrow as a contingency fund for dissolution expenses. As of June 30, 2017 and 2016, the balance in the dissolution reserve was \$70,302 and \$70,288, respectively.
- D) The School is required to deposit \$1,089 per month into a contingency fund to serve as a reserve for its lease payments. As of June 30, 2017 and 2016, the balance in the lease reserve was \$115,917 and \$115,899, respectively.

NOTE 4 – RECEIVABLES

Receivables consist of the following:

| | <u>2017</u> | <u>2016</u> |
|-------------------------------|-------------------|-------------------|
| NYC - Department of Education | \$ 13,127 | \$ 125,962 |
| State Education Department | 118,833 | 298,677 |
| Other | <u>12,002</u> | <u>32,908</u> |
| | <u>\$ 143,962</u> | <u>\$ 457,547</u> |

BRONX LIGHTHOUSE CHARTER SCHOOL, INC. AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

NOTE 5 – FIXED ASSETS

Fixed assets consist of the following:

| | <u>2017</u> | <u>2016</u> |
|---|---------------------|---------------------|
| Furniture and equipment | \$ 1,099,643 | \$ 990,518 |
| Capital lease – equipment | 550,824 | 550,824 |
| Building and building improvements | <u>13,002,531</u> | <u>13,002,531</u> |
| | 14,652,998 | 14,543,873 |
| Less: accumulated depreciation/amortization | <u>(3,056,621)</u> | <u>(2,553,962)</u> |
| Net book value | <u>\$11,596,377</u> | <u>\$11,989,911</u> |

NOTE 6 – CAPITAL LEASES PAYABLE

During 2012, the School acquired various equipment totaling \$550,824 under multiple capital lease agreements. Accumulated depreciation in the consolidated statements of financial position includes \$540,805 and \$479,088 related to the equipment as of June 30, 2017 and 2016, respectively. Amortization of the asset included in depreciation and amortization expenses amounted to \$61,717 and \$89,206 for the years ended June 30, 2017 and 2016, respectively. The leases call for forty-eight to sixty monthly payments with an interest rate varying from 7.5% to 8.4%. As of June 30, 2017, and 2016, the outstanding balance was \$0 and \$44,129, respectively. Interest expense for the years ended June 30, 2017 and 2016 was \$6,808 and \$7,113, respectively.

NOTE 7 – LOANS PAYABLE

In June 2011, BPHC entered into certain loan arrangements with a lender of funds, which were derived from the Federal New Markets Tax Credit (NMTC) program. In connection with this transaction, the School made a contribution of \$1,604,585 to BPHC, and BPHC entered into three loan arrangements with LIIF SUB-CDE VI, LLC (the NMTC lender) for the aggregate amount of \$13,340,000. The proceeds of the loans were used for the development of a charter school facility that serves students from grades 9 through 12. The loans are secured by all of the assets of the School.

The loans are also subject to certain financial covenants. The loans are summarized as follows:

| | <u>2017</u> | <u>2016</u> |
|---------------------|----------------------|----------------------|
| (A) LIIF CDE Loan 1 | \$ 7,299,880 | \$ 7,299,880 |
| (B) LIIF CDE Loan 2 | 3,128,520 | 3,128,520 |
| (C) LIIF CDE Loan 3 | <u>2,911,600</u> | <u>2,911,600</u> |
| Totals | <u>\$ 13,340,000</u> | <u>\$ 13,340,000</u> |

BRONX LIGHTHOUSE CHARTER SCHOOL, INC. AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

NOTE 7 – LOANS PAYABLE (continued)

- A) The loan is for a principal amount of \$7,299,880 at an interest rate of 4.72%. The loan calls for interest only payments starting on August 1, 2011 through its maturity date. The note matures on July 15, 2018. At the maturity date, a balloon payment is due for the principal amount of \$7,299,880. The minimum annual commitments are as follows:

| <u>For the Years Ending June 30,</u> | <u>Amount</u> |
|--------------------------------------|---------------------|
| 2018 | \$ - |
| 2019 | 7,299,880 |
| Total | <u>\$ 7,299,880</u> |

- B) The loan is for a principal amount of \$3,128,520 at an interest rate of 4.72%. The loan calls for interest only payments starting on August 1, 2011 through its maturity date. The note matures on July 15, 2018. At the maturity date, a balloon payment is due for the principal amount of \$3,128,520. The minimum annual commitments are as follows:

| <u>For the Years Ending June 30,</u> | <u>Amount</u> |
|--------------------------------------|---------------------|
| 2018 | \$ - |
| 2019 | 3,128,520 |
| Total | <u>\$ 3,128,520</u> |

- C) The loan is for a principal amount of \$2,911,600 at an interest rate of 4.72%. The loan calls for interest only payments starting on August 1, 2011 through July 1, 2018. After July 1, 2018, principal and interest payments are due on a monthly basis through July 16, 2041. The future principal payments due after July 2018 are \$2,911,600. The minimum annual commitments are as follows:

| <u>For the Years Ending June 30,</u> | <u>Amount</u> |
|--------------------------------------|---------------------|
| 2018 | \$ - |
| 2019 | 62,733 |
| 2020 | 62,733 |
| 2021 | 62,733 |
| 2022 | 62,733 |
| Thereafter | 2,660,668 |
| Total | <u>\$ 2,911,600</u> |

BRONX LIGHTHOUSE CHARTER SCHOOL, INC. AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

NOTE 8 – LINE OF CREDIT

The School has an available line of credit for \$400,000 with a financial institution. The line of credit is payable upon demand with an interest rate determined at the bank's prime rate. There was no outstanding balance as of June 30, 2017 and 2016.

NOTE 9 – MANAGEMENT FEES

The School contracted the management of certain academic and business operations to Lighthouse Academies, Inc. For the year ended June 30, 2016, the contract called for a base management fee plus a bonus provision, subject to the School meeting certain milestones. In 2017, the Contract was renewed and stated that Lighthouse Academies is entitled to compensation for its services in the amount of 4.5% of revenues. The management fee for the years ending June 30, 2017 and 2016 was \$481,158 and \$275,000, respectively.

NOTE 10 – RETIREMENT PLAN

The School has a 401(k) Plan for employees who are at least 21 years old and have completed one month of service. Effective July 1, 2010, the School amended its plan to require safe harbor employer matching contributions dollar for dollar of employee contributions not to exceed 4% of compensation. Safe harbor contributions are immediately vested with the participants. At June 30, 2017 and 2016, the School had a safe harbor matching employer contribution of \$99,670 and \$113,051, respectively. For the years ended June 30, 2017 and 2016, the School did not make a discretionary contribution. Employer profit sharing contributions made to the plan are fully vested in three years.

NOTE 11 – IN-KIND CONTRIBUTIONS

The NYC DOE donates space to the School for the purpose set forth in the School's Charter. The agreement commenced on July 1, 2005 and terminates in one year or upon the expiration/termination of the School's charter or upon expiration/termination of the lease in the event that the School is located in a leased premise, whichever is earlier. The agreement may be extended by a written agreement signed by the parties. The agreement was renewed for 2017. The annual fee for the use of the dedicated space is \$1. The fair market value for the use of the space for the years ended June 30, 2017 and 2016 was \$585,000 for each year.

The School also received donated textbooks and other technology related donations throughout the year. The fair market value for these donations was \$57,101 in 2017 and \$55,476 in 2016.

BRONX LIGHTHOUSE CHARTER SCHOOL, INC. AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

NOTE 12 – CONCENTRATION OF CREDIT RISK

Financial instruments that potentially subjects the School to a concentration of credit risk includes cash accounts with banks that exceed the Federal Deposit Insurance Corporation ("FDIC") insurance limits. Interest and noninterest-bearing accounts are insured up to \$250,000 per depositor.

During the fiscal year ended June 30, 2017 and 2016, the School did from time to time exceeded the FDIC insurance limits. Management believes that these financial institutions have strong credit ratings and that credit risk to these accounts is minimal.

Concentration of risk also exists between the School and the New York City Department of Education. For the years ended June 30, 2017 and 2016, the School received 89% and 89%, respectively of its funding from the New York City Department of Education in the form of student enrollment fees.

NOTE 13 – SUBSEQUENT EVENTS

Management has evaluated, for potential recognition and disclosure, events and transactions that occurred subsequent to the date of the consolidated statement of financial position through October 31, 2017, the date the financial statements were available to be issued.

**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**

The Board of Trustees
Bronx Lighthouse Charter School, Inc. and Affiliate
Bronx, New York

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 consolidated financial statements of Bronx Lighthouse Charter School, Inc. and Affiliate (collectively, the "School"), which comprise the consolidated statements of financial position as of June 30, 2017 and 2016, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated October 31, 2017.

Internal Control Over Financial Reporting

In planning and performing our audits of the consolidated 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 consolidated 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 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 audits 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.



Purchase, New York
October 31, 2017

SUPPLEMENTARY INFORMATION

BRONX LIGHTHOUSE CHARTER SCHOOL, INC. AND AFFILIATE
CONSOLIDATING STATEMENT OF FINANCIAL POSITION
JUNE 30, 2017

| | BRONX LIGHTHOUSE CHARTER SCHOOL | BLCS PROPERTY HOLDING COMPANY, INC. | PRE- CONSOLIDATED TOTAL | CONSOLIDATING ELIMINATIONS | CONSOLIDATED TOTAL |
|---|--|--|-------------------------------|-------------------------------|-----------------------|
| ASSETS | | | | | |
| Cash (including restricted cash) (Notes 3 and 12) | \$ 6,995,749 | \$ 120,836 | \$ 7,116,585 | \$ - | \$ 7,116,585 |
| Receivables (Note 4) | 143,962 | - | 143,962 | - | 143,962 |
| Prepaid expenses | 54,149 | 900 | 55,049 | (5,303) | 49,746 |
| Security deposits | 28,850 | - | 28,850 | - | 28,850 |
| Land | - | 2,231,880 | 2,231,880 | - | 2,231,880 |
| Fixed assets - net (Notes 2E and 5) | 175,430 | 11,420,947 | 11,596,377 | - | 11,596,377 |
| TOTAL ASSETS | <u>\$ 7,398,140</u> | <u>\$ 13,774,563</u> | <u>\$ 21,172,703</u> | <u>\$ (5,303)</u> | <u>\$ 21,167,400</u> |
| LIABILITIES | | | | | |
| Accounts payable and accrued expenses | \$ 174,441 | \$ 5,303 | \$ 179,744 | \$ (5,303) | 174,441 |
| Accrued payroll and payroll taxes | 698,850 | - | 698,850 | - | 698,850 |
| Accrued compensated absences | 88,451 | - | 88,451 | - | 88,451 |
| Capital Leases Payable (Note 6) | - | - | - | - | - |
| Due to Funder | 129,526 | - | 129,526 | - | 129,526 |
| Loans payable (Note 7) | - | 13,340,000 | 13,340,000 | - | 13,340,000 |
| TOTAL LIABILITIES | <u>1,091,268</u> | <u>13,345,303</u> | <u>14,436,571</u> | <u>(5,303)</u> | <u>14,431,268</u> |
| NET ASSETS (Note 2C) | | | | | |
| Unrestricted | 6,306,872 | 429,260 | 6,736,132 | - | 6,736,132 |
| TOTAL NET ASSETS | <u>6,306,872</u> | <u>429,260</u> | <u>6,736,132</u> | <u>-</u> | <u>6,736,132</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u>\$ 7,398,140</u> | <u>\$ 13,774,563</u> | <u>\$ 21,172,703</u> | <u>\$ (5,303)</u> | <u>\$ 21,167,400</u> |

The accompanying notes are an integral part of these financial statements.

BRONX LIGHTHOUSE CHARTER SCHOOL, INC. AND AFFILIATE
CONSOLIDATING STATEMENT OF FINANCIAL POSITION
JUNE 30, 2016

| | BRONX LIGHTHOUSE CHARTER SCHOOL | BLCS PROPERTY HOLDING COMPANY, INC. | PRE- CONSOLIDATED TOTAL | CONSOLIDATING ELIMINATIONS | CONSOLIDATED TOTAL |
|---|--|--|-------------------------------|-------------------------------|-----------------------|
| ASSETS | | | | | |
| Cash (including restricted cash) (Notes 3 and 12) | \$ 5,669,373 | \$ 114,308 | \$ 5,783,681 | \$ - | \$ 5,783,681 |
| Receivables (Note 4) | 457,547 | - | 457,547 | - | 457,547 |
| Prepaid expenses | 141,955 | 900 | 142,855 | (5,303) | 137,552 |
| Security deposits | 45,685 | - | 45,685 | - | 45,685 |
| Land | - | 2,231,880 | 2,231,880 | - | 2,231,880 |
| Fixed assets - net (Notes 2E and 5) | 235,562 | 11,754,349 | 11,989,911 | - | 11,989,911 |
| TOTAL ASSETS | <u>\$ 6,550,122</u> | <u>\$ 14,101,437</u> | <u>\$ 20,651,559</u> | <u>\$ (5,303)</u> | <u>\$ 20,646,256</u> |
| LIABILITIES | | | | | |
| Accounts payable and accrued expenses | \$ 228,857 | \$ 6,807 | \$ 235,664 | \$ (5,303) | \$ 230,361 |
| Accrued payroll and payroll taxes | 348,999 | - | 348,999 | - | 348,999 |
| Accrued compensated absences | 110,821 | - | 110,821 | - | 110,821 |
| Capital Leases Payable (Note 6) | 44,129 | - | 44,129 | - | 44,129 |
| Loans payable (Note 7) | - | 13,340,000 | 13,340,000 | - | 13,340,000 |
| TOTAL LIABILITIES | <u>732,806</u> | <u>13,346,807</u> | <u>14,079,613</u> | <u>(5,303)</u> | <u>14,074,310</u> |
| Unrestricted | | | | | |
| NET ASSETS (Note 2C) | | | | | |
| Unrestricted | <u>5,817,316</u> | <u>754,630</u> | <u>6,571,946</u> | <u>-</u> | <u>6,571,946</u> |
| TOTAL NET ASSETS | <u>5,817,316</u> | <u>754,630</u> | <u>6,571,946</u> | <u>-</u> | <u>6,571,946</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u>\$ 6,550,122</u> | <u>\$ 14,101,437</u> | <u>\$ 20,651,559</u> | <u>\$ (5,303)</u> | <u>\$ 20,646,256</u> |

The accompanying notes are an integral part of these financial statements.

BRONX LIGHTHOUSE CHARTER SCHOOL, INC. AND AFFILIATE
CONSOLIDATING STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED
JUNE 30, 2017

| | BRONX LIGHTHOUSE CHARTER SCHOOL | BLCS PROPERTY HOLDING COMPANY, INC. | PRE- CONSOLIDATED TOTAL | CONSOLIDATING ELIMINATIONS | CONSOLIDATED TOTAL |
|---------------------------------------|--|--|--|---------------------------------------|-------------------------------|
| REVENUE AND SUPPORT: | | | | | |
| Student enrollment fees (Note 2F) | \$ 10,052,829 | \$ - | \$ 10,052,829 | \$ - | \$ 10,052,829 |
| Federal grants | 424,898 | - | 424,898 | - | 424,898 |
| Public support | 27,095 | - | 27,095 | - | 27,095 |
| Interest | 10,866 | 22 | 10,888 | - | 10,888 |
| Other | 59,827 | 12,730 | 72,557 | - | 72,557 |
| Rental income from BLCS | - | 658,116 | 658,116 | (658,116) | - |
| In-kind contributions (Note 11) | 642,101 | - | 642,101 | - | 642,101 |
| Total revenue and support | 11,217,616 | 670,868 | 11,888,484 | (658,116) | 11,230,368 |
| EXPENSES: | | | | | |
| Program services: | | | | | |
| Educational Services | 9,436,625 | - | 9,436,625 | (658,116) | 8,778,509 |
| BLCS Property Holding Company | - | 996,238 | 996,238 | - | 996,238 |
| Total program expenses | 9,436,625 | 996,238 | 10,432,863 | (658,116) | 9,774,747 |
| Supporting services: | | | | | |
| Management and general | 1,291,435 | - | 1,291,435 | - | 1,291,435 |
| Total supporting services | 1,291,435 | - | 1,291,435 | - | 1,291,435 |
| Total expenses | 10,728,060 | 996,238 | 11,724,298 | (658,116) | 11,066,182 |
| CHANGE IN NET ASSETS | 489,556 | (325,370) | 164,186 | - | 164,186 |
| NET ASSETS - Beginning of Year | 5,817,316 | 754,630 | 6,571,946 | - | 6,571,946 |
| NET ASSETS - End of Year | \$ 6,306,872 | \$ 429,260 | \$ 6,736,132 | \$ - | \$ 6,736,132 |

The accompanying notes are an integral part of these financial statements.

BRONX LIGHTHOUSE CHARTER SCHOOL, INC. AND AFFILIATE
CONSOLIDATING STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016

| | BRONX LIGHTHOUSE CHARTER SCHOOL | BRONX PROPERTY HOLDING COMPANY, INC. | PRE- CONSOLIDATED TOTAL | CONSOLIDATING ELIMINATIONS | CONSOLIDATED TOTAL |
|---------------------------------------|--|---|-------------------------------|-------------------------------|-----------------------|
| REVENUE AND SUPPORT: | | | | | |
| Student enrollment fees (Note 2F) | \$ 10,022,746 | \$ - | \$ 10,022,746 | \$ - | \$ 10,022,746 |
| Federal grants | 513,387 | - | 513,387 | - | 513,387 |
| Public support | 29,752 | - | 29,752 | - | 29,752 |
| Interest | 9,388 | - | 9,388 | - | 9,388 |
| Other | 21,993 | - | 21,993 | - | 21,993 |
| Rental income from BLCS | - | 658,116 | 658,116 | (658,116) | - |
| In-kind contributions (Note 11) | 640,476 | - | 640,476 | - | 640,476 |
| Total revenue and support | <u>11,237,742</u> | <u>658,116</u> | <u>11,895,858</u> | <u>(658,116)</u> | <u>11,237,742</u> |
| EXPENSES: | | | | | |
| Program services: | | | | | |
| Educational Services | 9,099,160 | - | 9,099,160 | (658,116) | 8,441,044 |
| BLCS Property Holding Company | - | 990,157 | 990,157 | - | 990,157 |
| Total program expenses | <u>9,099,160</u> | <u>990,157</u> | <u>10,089,317</u> | <u>(658,116)</u> | <u>9,431,201</u> |
| Supporting services: | | | | | |
| Management and general | 1,509,702 | - | 1,509,702 | - | 1,509,702 |
| Total supporting services | <u>1,509,702</u> | <u>-</u> | <u>1,509,702</u> | <u>-</u> | <u>1,509,702</u> |
| Total expenses | <u>10,608,862</u> | <u>990,157</u> | <u>11,599,019</u> | <u>(658,116)</u> | <u>10,940,903</u> |
| CHANGE IN NET ASSETS | 628,880 | (332,041) | 296,839 | - | 296,839 |
| NET ASSETS - Beginning of Year | <u>5,188,436</u> | <u>1,086,671</u> | <u>6,275,107</u> | <u>-</u> | <u>6,275,107</u> |
| NET ASSETS - End of Year | <u>\$ 5,817,316</u> | <u>\$ 754,630</u> | <u>\$ 6,571,946</u> | <u>\$ -</u> | <u>\$ 6,571,946</u> |

The accompanying notes are an integral part of these financial statements.