

BRONX CHARTER SCHOOL FOR THE ARTS

**FINANCIAL STATEMENTS
AND
ADDITIONAL INFORMATION**

JUNE 30, 2010 AND 2009

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 statements of financial position of Bronx Charter School for the Arts (a not-for-profit corporation) as of June 30, 2010 and 2009, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our 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, 2010 and 2009, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 25, 2010 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* and should be considered in assessing the results of our audit.

Lutz + Carr, LLP

New York, New York
October 25, 2010

BRONX CHARTER SCHOOL FOR THE ARTS

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
Assets		
Current Assets		
Cash and cash equivalents (Notes 1b and 6)	\$ 376,392	\$ 456,736
Cash - temporarily restricted reserve accounts (Note 5)	287,757	230,670
Unconditional promises to give (Notes 1c and 3)		
Unrestricted	230,962	58,537
Temporarily restricted	100,000	100,000
Accounts receivable	34,240	32,119
Prepaid expenses and other current assets	6,279	28,414
Total Current Assets	<u>1,035,630</u>	<u>906,476</u>
Property and equipment (Notes 1f and 4)	118,006	118,006
Security deposit (Note 5)	180,136	185,181
Building deposit (Note 5)	<u>201,955</u>	<u>200,000</u>
Total Assets	<u><u>\$1,535,727</u></u>	<u><u>\$1,409,663</u></u>
Liabilities		
Current Liabilities		
Accounts payable and accrued expenses	<u>\$ 426,024</u>	<u>\$ 312,862</u>
Commitment and Contingency (Note 5)		
Net Assets		
Unrestricted	550,950	566,801
Temporarily restricted (Notes 2)	558,753	530,000
Total Net Assets	<u>1,109,703</u>	<u>1,096,801</u>
Total Liabilities and Net Assets	<u><u>\$1,535,727</u></u>	<u><u>\$1,409,663</u></u>

See notes to financial statements.

BRONX CHARTER SCHOOL FOR THE ARTS

STATEMENTS OF ACTIVITIES

YEARS ENDED JUNE 30, 2010 AND 2009

	2010			2009		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Revenues, Gains and Other Support						
Public School District						
Revenue - Resident Student Enrollment	\$ 4,299,000	\$ 28,753	\$4,327,753	\$ 4,081,100	\$ -	\$4,081,100
Federal Title income	503,292	-	503,292	232,634	-	232,634
School Food Reimbursement	130,160	-	130,160	127,680	-	127,680
Contributions	266,064	-	266,064	245,754	15,000	260,754
Special event	5,300	-	5,300	-	-	-
Direct special event expense	(8,190)	-	(8,190)	-	-	-
In-kind goods and services	1,225	-	1,225	-	-	-
Interest income	8,688	-	8,688	10,675	-	10,675
Other income	9,947	-	9,947	7,844	-	7,844
Net assets released from restrictions	-	-	-	38,000	(38,000)	-
Total Revenues, Gains and Other Support	<u>5,215,486</u>	<u>28,753</u>	<u>5,244,239</u>	<u>4,743,687</u>	<u>(23,000)</u>	<u>4,720,687</u>
Expenses						
Program Services						
Regular Education	2,928,166	-	2,928,166	2,637,407	-	2,637,407
Special Education	1,363,018	-	1,363,018	1,071,962	-	1,071,962
Total Program Services	<u>4,291,184</u>	<u>-</u>	<u>4,291,184</u>	<u>3,709,369</u>	<u>-</u>	<u>3,709,369</u>
Supporting Services						
Management and general	738,347	-	738,347	638,293	-	638,293
Fundraising and special events	201,806	-	201,806	222,196	-	222,196
Total Supporting Services	<u>940,153</u>	<u>-</u>	<u>940,153</u>	<u>860,489</u>	<u>-</u>	<u>860,489</u>
Total Expenses	<u>5,231,337</u>	<u>-</u>	<u>5,231,337</u>	<u>4,569,858</u>	<u>-</u>	<u>4,569,858</u>
Increase (decrease) in net assets	(15,851)	28,753	12,902	173,829	(23,000)	150,829
Net assets, beginning of year	<u>566,801</u>	<u>530,000</u>	<u>1,096,801</u>	<u>392,972</u>	<u>553,000</u>	<u>945,972</u>
Net Assets, End of Year	<u>\$ 550,950</u>	<u>\$ 558,753</u>	<u>\$1,109,703</u>	<u>\$ 566,801</u>	<u>\$ 530,000</u>	<u>\$1,096,801</u>

See notes to financial statements.

BRONX CHARTER SCHOOL FOR THE ARTS

STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
Cash Flows From Operating Activities		
Increase in net assets	\$ 12,902	\$150,829
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	29,141	47,085
(Increase) decrease in:		
Unconditional promise to give	(172,425)	(29,839)
Accounts receivable	(2,121)	(31,944)
Prepaid expenses and other current assets	22,135	(23,465)
Security deposit	5,045	(5,036)
Increase in accounts payable and accrued expenses	<u>113,162</u>	<u>68,783</u>
Net Cash Provided By Operating Activities	<u>7,839</u>	<u>176,413</u>
Cash Flows From Financing Activities		
Building deposit - interest	(1,955)	-
Deposits into reserve accounts	<u>(57,087)</u>	<u>(57,489)</u>
Net Cash Used By Financing Activities	<u>(59,042)</u>	<u>(57,489)</u>
Cash Flows From Investing Activities		
Purchase of property and equipment	<u>(29,141)</u>	<u>(8,728)</u>
Net increase (decrease) in cash and cash equivalents	(80,344)	110,196
Cash and cash equivalents, beginning of year	<u>456,736</u>	<u>346,540</u>
Cash and Cash Equivalents, End of Year	<u><u>\$376,392</u></u>	<u><u>\$456,736</u></u>

See notes to financial statements.

BRONX CHARTER SCHOOL FOR THE ARTS**NOTES TO FINANCIAL STATEMENTS****JUNE 30, 2010 AND 2009****Note 1 - Organization and Summary of Significant Accounting Policies****a - Organization**

Bronx Charter School for the Arts ("BCSA") is an education corporation 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 third term of five years commencing July 1, 2010.

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 290 students in grades K-6.

b - Cash and Cash Equivalents

For purposes of the statement of cash flows, BSCA considers all highly liquid debt instruments, purchased with a maturity date of three months or less, 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 being 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, 2010 AND 2009

Note 1 - Organization and Summary of Significant Accounting Policies (continued)

g - 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.

h - Subsequent Events

BCSA has evaluated subsequent events through October 25, 2010, the date that the financial statements are considered available to be issued.

Note 2 - Restrictions on Net Assets

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

Note 3 - Unconditional Promises to Give

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

Note 4 - Property and Equipment

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

	<u>Life</u>	<u>2010</u>	<u>2009</u>
Computer equipment	5 years	\$207,391	\$182,538
Furniture and other office equipment	5-7 years	216,527	212,239
Leasehold improvements	20 years	66,042	66,042
Teaching materials	3 years	55,298	55,298
Musical instruments	5 years	<u>29,384</u>	<u>29,384</u>
		574,642	545,501
Less: Accumulated depreciation		<u>(456,636)</u>	<u>(427,495)</u>
		<u>\$118,006</u>	<u>\$118,006</u>

Depreciation expense for the years ended June 30, 2010 and 2009 was \$29,141 and \$47,085, respectively.

BRONX CHARTER SCHOOL FOR THE ARTS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010 AND 2009

Note 5 - Net Lease

BCSA signed a net lease with Civic Builders (the "Owner") covering the building located at 950-954 Longfellow Avenue, Bronx, NY. The lease term is 20 years with a 10 year renewal option. The annual fixed rent of \$512,400 increases by 3% cumulatively each year of the term after the first year.

On October 30, 2006, in connection with the Owner's mortgage refinancing, the lease and related tenant reserve requirements were also amended. The Operating Deficit/Capital account which totaled approximately \$280,000 was returned to BCSA, while a new "Lease Payment Reserve Account" was funded by BCSA in the amount of \$80,000 at Self-Help Credit Union ("Self"). These funds can be released by Self and be applied to amounts owed under the lease. BCSA is obligated to repay any released amounts according to terms defined in the lease. BCSA is also required to deposit \$4,500 per month into an "Operating Reserve Account" at Self, which entitles BCSA to a \$4,500 monthly rent abatement.

As of June 30, reserve accounts were comprised as follows:

	<u>2010</u>	<u>2009</u>
Lease Payment Reserve Account	\$ 87,830	\$ 86,801
Operating Reserve Account	<u>199,927</u>	<u>143,869</u>
Total	<u>\$287,757</u>	<u>\$230,670</u>

On December 18, 2007, BCSA made a \$200,000 down payment pursuant to the terms of a contract with the Owner for the sale of the building to BCSA. Subsequent to June 30, 2010, BCSA decided not to purchase the building. The \$200,000 deposit was refunded and a related temporarily restricted grant was returned to the donor. BCSA is currently negotiating with contributors to reallocate an additional \$315,000 of funds restricted to purchasing the building to other future programs.

Note 6 - Concentrations of Credit Risk

BCSA maintains cash balances at a financial institution located in New York City.

BRONX CHARTER SCHOOL FOR THE ARTS**NOTES TO FINANCIAL STATEMENTS****JUNE 30, 2010 AND 2009****Note 7 - Functional Allocation of Expenses**

The costs of providing 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.

ADDITIONAL INFORMATION



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**INDEPENDENT AUDITORS' REPORT ON
ADDITIONAL INFORMATION**

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

Our report on our audits of the basic financial statements of Bronx Charter School for the Arts for 2010 and 2009 appears on page 1. We conducted our audits in accordance with auditing standards generally accepted in the United States of America for the purpose of forming an opinion on the basic financial statements taken as a whole. The Schedule of Functional Expenses for the year ended June 30, 2010 with comparative totals for 2009 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Lutz + Carr, LLP

New York, New York
October 25, 2010

BRONX CHARTER SCHOOL FOR THE ARTS

SCHEDULE OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2010 WITH COMPARATIVE TOTALS FOR 2009

	Program Services			Supporting Services			2010	2009 *
	Regular Education	Special Education	Total	Management and General	Fundraising and Special Events	Total	Total Expenses	Total Expenses
Salaries	\$1,696,611	\$ 938,360	\$2,634,971	\$ 195,207	\$ 122,238	\$317,445	\$2,952,416	\$2,748,275
Employee benefits and payroll taxes	363,267	200,915	564,182	41,795	26,173	67,968	632,150	572,205
Accounting/auditing fees	-	-	-	38,649	-	38,649	38,649	21,800
Consultants - education	77,185	19,297	96,482	-	-	-	96,482	97,632
Contracted services - other	19,183	10,610	29,793	163,760	36,582	200,342	230,135	63,930
Staff development	43,808	10,952	54,760	23,689	-	23,689	78,449	29,225
Food and food service	111,568	27,892	139,460	20,085	-	20,085	159,545	123,192
Insurance	19,987	4,997	24,984	10,708	-	10,708	35,692	22,111
Occupancy	370,158	92,540	462,698	198,298	-	198,298	660,996	627,652
Printing	16,110	4,027	20,137	2,237	-	2,237	22,374	16,841
Supplies and materials	20,169	5,042	25,211	2,801	-	2,801	28,012	24,994
Postage	5,480	842	6,322	703	-	703	7,025	3,915
Student supplies	121,054	32,062	153,116	16,942	-	16,942	170,058	140,748
Other expenses	9,590	2,398	11,988	1,427	-	1,427	13,415	3,012
Staff recruitment	12,894	3,224	16,118	1,791	16,813	18,604	34,722	17,187
Telephone	15,175	3,794	18,969	8,130	-	8,130	27,099	7,724
Subscription dues	4,331	667	4,998	555	-	555	5,553	2,330
Travel	5,277	1,319	6,596	2,828	-	2,828	9,424	-
Depreciation	16,319	4,080	20,399	8,742	-	8,742	29,141	47,085
Total Expenses, 2010	<u>\$2,928,166</u>	<u>\$1,363,018</u>	<u>\$4,291,184</u>	<u>\$ 738,347</u>	<u>\$ 201,806</u>	<u>\$940,153</u>	<u>\$5,231,337</u>	
Total Expenses, 2009	<u>\$2,637,407</u>	<u>\$1,071,962</u>	<u>\$3,709,369</u>	<u>\$ 638,293</u>	<u>\$ 222,196</u>	<u>\$860,489</u>		<u>\$4,569,858</u>

* Certain amounts have been reclassified for comparative purposes.

See independent auditors' report on additional information.