

BRONX CHARTER SCHOOL FOR THE ARTS

**FINANCIAL STATEMENTS
AND
ADDITIONAL INFORMATION**

JUNE 30, 2011 AND 2010

BRONX CHARTER SCHOOL FOR THE ARTS

TABLE OF CONTENTS

	Page
Independent Auditors' Report	1
Financial Statements	
Statements of Financial Position	2
Statements of Activities	3
Statements of Cash Flows	4
Notes to Financial Statements	5-8
Additional Information	
Independent Auditors' Report on Additional Information	10
Schedule of Functional Expenses	11
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	12-13



LUZ AND CARR
CERTIFIED PUBLIC ACCOUNTANTS, LLP
300 EAST 42ND ST., NEW YORK, NY 10017
212-697-2299 Fax 212-949-1768

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, 2011 and 2010, 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, 2011 and 2010, 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 27, 2011 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 27, 2011

BRONX CHARTER SCHOOL FOR THE ARTS

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
Assets		
Cash and cash equivalents (Notes 1b and 7)	\$ 745,122	\$ 376,392
Cash - restricted reserve accounts (Notes 5 and 7)	344,989	287,757
Unconditional promises to give (Notes 1c and 3)		
Unrestricted	226,208	230,962
Temporarily restricted	-	100,000
Accounts receivable	47,008	34,240
Prepaid expenses and other current assets	2,802	6,370
Property and equipment (Notes 1f and 4)	165,225	118,006
Security deposit (Note 5)	170,000	180,045
Security deposit - capital expense reserve account (Note 5)	14,793	-
Building deposit (Note 5)	-	201,955
	<u> </u>	<u> </u>
Total Assets	<u>\$1,716,147</u>	<u>\$1,535,727</u>
Liabilities and Net Assets		
Accounts payable and accrued expenses	\$ 117,116	\$ 173,753
Salaries, payroll taxes and benefits payable	275,302	252,271
Return of contribution payable (Note 5)	20,000	-
Deferred resident student enrollment revenue (Note 6)	11,526	-
Deferred lease credit (Notes 1g and 5)	417,857	-
Deferred rent (Notes 1g and 5)	122,320	-
Total Liabilities	<u>964,121</u>	<u>426,024</u>
Commitment and Contingency (Note 5)		
Net Assets		
Unrestricted		
Board designated (Note 2a)	425,000	-
Other	152,026	550,950
Total Unrestricted	<u>577,026</u>	<u>550,950</u>
Temporarily restricted (Note 2b)	175,000	558,753
Total Net Assets	<u>752,026</u>	<u>1,109,703</u>
	<u> </u>	<u> </u>
Total Liabilities and Net Assets	<u>\$1,716,147</u>	<u>\$1,535,727</u>

See notes to financial statements.

BRONX CHARTER SCHOOL FOR THE ARTS

STATEMENTS OF ACTIVITIES

YEARS ENDED JUNE 30, 2011 AND 2010

	2011			2010		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Revenues, Gains and Other Support						
Public School District:						
Resident Student Enrollment (Note 6)	\$ 4,781,731	\$ -	\$4,781,731	\$ 4,299,000	\$ 28,753	\$4,327,753
Federal Title and Stimulus income	506,497	-	506,497	503,292	-	503,292
School Food Reimbursement	146,112	-	146,112	130,160	-	130,160
Contributions	228,164	-	228,164	266,064	-	266,064
Special events	96,336	-	96,336	5,300	-	5,300
Direct special events expense	(13,869)	-	(13,869)	(8,190)	-	(8,190)
In-kind goods and services	1,558	-	1,558	1,225	-	1,225
Interest income	9,266	-	9,266	8,688	-	8,688
Other income	29,441	-	29,441	9,947	-	9,947
Net assets released from restrictions	63,753	(63,753)	-	-	-	-
Rescission of temporarily restricted grants (Note 5)	-	(320,000)	(320,000)	-	-	-
Total Revenues, Gains and Other Support	5,848,989	(383,753)	5,465,236	5,215,486	28,753	5,244,239
Expenses						
Program Services						
Regular Education	3,380,157	-	3,380,157	2,928,166	-	2,928,166
Special Education	1,564,806	-	1,564,806	1,363,018	-	1,363,018
Total Program Services	4,944,963	-	4,944,963	4,291,184	-	4,291,184
Supporting Services						
Management and general	688,765	-	688,765	738,347	-	738,347
Fundraising and special events	189,185	-	189,185	201,806	-	201,806
Total Supporting Services	877,950	-	877,950	940,153	-	940,153
Total Expenses	5,822,913	-	5,822,913	5,231,337	-	5,231,337
Increase (decrease) in net assets	26,076	(383,753)	(357,677)	(15,851)	28,753	12,902
Net assets, beginning of year	550,950	558,753	1,109,703	566,801	530,000	1,096,801
Net Assets, End of Year	\$ 577,026	\$ 175,000	\$ 752,026	\$ 550,950	\$ 558,753	\$1,109,703

See notes to financial statements.

BRONX CHARTER SCHOOL FOR THE ARTS

STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
Cash Flows From Operating Activities		
Increase (decrease) in net assets	\$(357,677)	\$ 12,902
Adjustments to reconcile increase (decrease) in net assets to net cash provided (used) by operating activities:		
Depreciation	36,720	29,141
Deferred rent	122,320	-
Credit towards rent	(32,143)	-
Return of unconditional promise to give	100,000	-
(Increase) decrease in:		
Unconditional promise to give	4,754	(172,425)
Accounts receivable	(12,768)	(2,121)
Prepaid expenses and other current assets	3,568	27,180
Security deposit	10,045	-
Security deposit - capital expense reserve account	(25,000)	-
Reimbursement from capital expense reserve account	10,207	-
Increase (decrease) in:		
Accounts payable and accrued expenses	(56,637)	86,772
Salaries, payroll taxes and benefits payable	23,031	26,390
Return of contribution payable	20,000	-
Deferred resident student enrollment revenue	11,526	-
Net Cash Provided (Used) By Operating Activities	<u>(142,054)</u>	<u>7,839</u>
Cash Flows From Investing Activities		
Purchase of property and equipment	<u>(83,939)</u>	<u>(29,141)</u>
Cash Flows From Financing Activities		
Proceeds from lease credit	450,000	-
Proceeds from return of building deposit	201,955	-
Building deposit - interest	-	(1,955)
Deposits into reserve accounts	<u>(57,232)</u>	<u>(57,087)</u>
Net Cash Provided (Used) By Financing Activities	<u>594,723</u>	<u>(59,042)</u>
Net increase (decrease) in cash	368,730	(80,344)
Cash and cash equivalents, beginning of year	<u>376,392</u>	<u>456,736</u>
Cash and Cash Equivalents, End of Year	<u>\$ 745,122</u>	<u>\$376,392</u>

See notes to financial statements.

BRONX CHARTER SCHOOL FOR THE ARTS**NOTES TO FINANCIAL STATEMENTS****JUNE 30, 2011 AND 2010****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 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 300 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, 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 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, 2011 AND 2010****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 (see 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 (see Note 5) is credited towards rent expense, over the life of the lease.

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. Management has evaluated all income tax positions and concluded that no disclosures relating to uncertain positions were required in the financial statements.

i - Subsequent Events

BCSA has evaluated subsequent events through October 27, 2011, the date that the financial statements are considered available to be issued.

j - Prior Year Information

For comparability, certain 2010 amounts have been reclassified, where appropriate, to conform to the financial statement presentation used in 2011.

Note 2 - Net Assetsa - Board Designated

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

b - Restriction on Net Assets

Temporarily restricted net assets are restricted for future capital projects.

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, 2011 AND 2010

Note 4 - Property and Equipment

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

	<u>Life</u>	<u>2011</u>	<u>2010</u>
Computer equipment	5 years	\$239,970	\$207,391
Furniture and other office equipment	5-7 years	227,224	216,527
Leasehold improvements	Life of lease	106,705	66,042
Teaching materials	3 years	55,298	55,298
Musical instruments	5 years	<u>29,384</u>	<u>29,384</u>
		658,581	574,642
Less: Accumulated depreciation		<u>(493,356)</u>	<u>(456,636)</u>
		<u>\$165,225</u>	<u>\$118,006</u>

Depreciation expense for the years ended June 30, 2011 and 2010 was \$36,720 and \$29,141, 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 10 year renewal option. The annual fixed rent of \$540,012 increases by 3% cumulatively each year on August 1.

The lease requires BCSA to maintain a "Lease Payment Reserve Account", which was originally 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. As part of the lease amendment, once the landlord's mortgage expires in October of 2013, funds in these two accounts shall be released to BCSA.

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

	<u>2011</u>	<u>2010</u>
Lease Payment Reserve Account	\$ 88,728	\$ 87,830
Operating Reserve Account	<u>256,261</u>	<u>199,927</u>
Total	<u>\$344,989</u>	<u>\$287,757</u>

BRONX CHARTER SCHOOL FOR THE ARTS**NOTES TO FINANCIAL STATEMENTS****JUNE 30, 2011 AND 2010****Note 5 - Net Lease (continued)**

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 and 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.

As part of the amendment, 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.

On December 18, 2007, BCSA made a \$200,000 down payment, (funded with a restricted donation from the New York State stimulus fund), pursuant to the terms of a contract with the Owner for the sale of the building to BCSA. During the year ended June 30, 2011, BCSA decided not to purchase the building. The \$200,000 deposit was refunded and the related \$200,000 temporarily restricted grant was returned to New York State. An additional \$120,000 received from other donors towards the building was also agreed to be returned. BCSA is currently negotiating with one remaining contributor to reallocate \$75,000 of funds restricted to purchasing the building to other future programs.

Note 6 - Resident Student Enrollment

BCSA' 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 2012 school year.

Note 7 - Concentrations of Credit Risk

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

Note 8 - 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.

ADDITIONAL INFORMATION



LUTZ AND CARR
CERTIFIED PUBLIC ACCOUNTANTS, LLP
300 EAST 42ND ST., NEW YORK, NY 10017
212-697-2299 Fax 212-949-1768

**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 2011 and 2010 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, 2011 with comparative totals for 2010 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 27, 2011

BRONX CHARTER SCHOOL FOR THE ARTS

SCHEDULE OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2011 WITH COMPARATIVE TOTALS FOR 2010

	Program Services			Supporting Services			2011	2010
	Regular Education	Special Education	Total	Management and General	Fundraising and Special Events	Total	Total Expenses	Total Expenses
Salaries	\$1,981,919	\$1,086,592	\$3,068,511	\$ 207,766	\$ 119,778	\$327,544	\$3,396,055	\$2,952,416
Employee benefits and payroll taxes	418,249	229,306	647,555	43,846	25,277	69,123	716,678	632,150
Professional fees	-	-	-	28,825	-	28,825	28,825	38,649
Consultants - education	70,521	17,631	88,152	-	-	-	88,152	96,482
Extended day programs costs	50,717	-	50,717	-	-	-	50,717	-
Contracted services - other	17,223	9,443	26,666	67,316	27,023	94,339	121,005	230,135
Staff development	50,617	12,654	63,271	12,030	-	12,030	75,301	78,449
Food and food service	112,792	28,198	140,990	20,909	-	20,909	161,899	159,545
Insurance	20,444	5,111	25,555	10,952	-	10,952	36,507	35,692
Occupancy and facility costs	460,570	115,142	575,712	246,734	-	246,734	822,446	660,996
Printing	23,731	13,011	36,742	2,488	1,433	3,921	40,663	22,374
Supplies and materials	10,860	5,954	16,814	1,139	656	1,795	18,609	23,820
Postage	3,803	2,085	5,888	399	230	629	6,517	7,025
Student supplies	88,382	22,095	110,477	12,275	-	12,275	122,752	173,848
Other expenses	17,356	4,340	21,696	7,656	-	7,656	29,352	13,817
Staff recruitment and event expenses	2,006	501	2,507	279	14,788	15,067	17,574	34,722
Telephone and internet	15,228	3,808	19,036	8,158	-	8,158	27,194	27,099
Subscription dues	2,907	727	3,634	404	-	404	4,038	5,553
Travel	12,269	3,067	15,336	6,573	-	6,573	21,909	9,424
Depreciation	20,563	5,141	25,704	11,016	-	11,016	36,720	29,141
Total Expenses, 2011	<u>\$3,380,157</u>	<u>\$1,564,806</u>	<u>\$4,944,963</u>	<u>\$ 688,765</u>	<u>\$ 189,185</u>	<u>\$877,950</u>	<u>\$5,822,913</u>	
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>

See independent auditors' report on additional information.



**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 the financial statements of Bronx Charter School for the Arts as of and for the year ended June 30, 2011, and have issued our report thereon dated October 27, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Bronx Charter School for the Arts' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Bronx Charter School for the Arts' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

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 or correct misstatements on a timely basis.

A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entities financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.



Compliance and Other Matters

As part of obtaining reasonable assurance about whether Bronx Charter School for the Arts' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain other matters that we reported to management of Bronx Charter School for the Arts in a separate letter dated October 27, 2011.

This report is intended solely for the information and use of management, Board of Trustees, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

New York, New York
October 27, 2011