Bronx Community Charter School

Financial Statements

June 30, 2018 and 2017

PKF O'CONNOR DAVIES
ACCOUNTANTS AND ADVISORS

Independent Auditors' Report

Board of Trustees
Bronx Community Charter School

We have audited the accompanying financial statements of Bronx Community Charter School (the "School"), which comprise the statements of financial position as of June 30, 2018 and 2017, and the related 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 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 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 financial statements are free from 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.

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the School as of June 30, 2018 and 2017, 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.

Report on Summarized Comparative Information

We have previously audited the School's 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated September 23, 2017. In our opinion, the summarized comparative statement of functional expenses presented herein for the year ended June 30, 2017 is consistent, in all material respects, with the audited financial statements from which it was derived.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 27, 2018, on our consideration of the School's 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 solely 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 effectiveness of the School's 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 the School's internal control over financial reporting and compliance.

PKF O'Connor Davies, LLP
Harrison, New York
September 27, 2018

Bronx Community Charter School

Statements of Financial Position

	June 30,	
	2018	2017
ASSETS		
Current Assests		
Cash and cash equivalents	$ 2,327,695	$ 1,593,737
Grants and contracts receivable	221,936	221,552
Prepaid expenses and other current assets	235,358	220,760
Total Current Assets	2,784,989	2,036,049
Property and equipment, net	1,567,989	1,643,455
Security deposits	208,308	208,308
Restricted cash	75,219	75,144
	$ 4,636,505	$ 3,962,956
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable and accrued expenses	$ 350,069	$ 280,127
Accrued payroll and payroll taxes	636,396	503,573
Total Current Liabilities	986,465	783,700
Deferred rent	725,931	678,800
Total Liabilities	1,712,396	1,462,500
Net assets, unrestricted	2,924,109	2,500,456
	$ 4,636,505	$ 3,962,956

See notes to financial statements

Bronx Community Charter School

Statements of Activities

	Year Ended June 30,	
	2018	2017
REVENUE AND SUPPORT		
State and local per pupil operating revenue	$ 8,913,108	$ 7,771,353
State and local per pupil facilities funding	657,402	280,185
Federal grants	479,422	345,784
State grants	31,842	236,717
Contributions and grants	75,409	114,502
Donated services	6,136	-
Other income	48,112	60,055
Total Revenue and Support	10,211,431	8,808,596
EXPENSES		
Program Services		
Regular education	8,009,226	6,617,917
Special education	1,104,962	1,129,901
Total Program Services	9,114,188	7,747,818
Supporting Services		
Management and general	645,426	581,503
Fundraising	28,164	61,849
Total Expenses	9,787,778	8,391,170
Change in Net Assets	423,653	417,426
NET ASSETS, UNRESTRICTED		
Beginning of year	2,500,456	2,083,030
End of year	$ 2,924,109	$ 2,500,456

See notes to financial statements

Bronx Community Charter School

Statement of Functional Expenses
Year Ended June 30, 2018
(with summarized totals for the year ended June 30, 2017)

	2018						2017
	Program Services			Management and General			
	Regular Education	Special Education	Total		Fundraising	Total	Total
Salaries	$ 5,050,779	$ 503,939	$ 5,554,718	$ 395,324	$ 18,339	$ 5,968,381	$ 5,060,709
Employee benefits and payroll taxes	1,175,767	246,969	1,422,736	91,203	2,208	1,516,147	1,188,881
Consultants - educational	21,996	4,481	26,477	-	-	26,477	17,961
Consultants - other	27,800	7,116	34,916	5,993	-	40,909	33,078
Staff training and development	106,893	25,739	132,632	4,289	-	136,921	131,756
Legal	-	-	-	-	-	-	6,729
Auditing and accounting fees	-	-	-	25,431	-	25,431	21,183
Travel and entertainment	1,943	429	2,372	124	-	2,496	2,015
Field trips	115,369	36,462	151,831	-	-	151,831	73,648
Student food service	-	-	-	-	-	-	9,100
Parent/student involvement	70,327	16,949	87,276	-	-	87,276	72,877
Books and curriculum	56,040	16,824	72,864	-	-	72,864	74,732
Classroom supplies	121,117	33,004	154,121	86	-	154,207	189,366
Office expense	49,231	14,328	63,559	13,657	-	77,216	66,129
Equipment lease and maintenance	17,956	2,708	20,664	1,436	129	22,229	18,321
Repairs and maintenance	122,425	33,277	155,702	14,385	-	170,087	153,505
Telephone and internet service	63,199	9,660	72,859	6,512	432	79,803	120,037
Postage and delivery	1,124	236	1,360	159	-	1,519	1,611
Insurance	28,457	9,613	38,070	3,725	-	41,795	42,807
Facility expense	818,055	122,431	940,486	66,514	6,972	1,013,972	930,192
Information technology	6,568	2,006	8,574	146	-	8,720	13,826
Fundraising expense	-	-	-	-	-	-	9,047
Depreciation and amortization	154,180	18,791	172,971	16,442	-	189,413	153,600
Miscellaneous	-	-	-	-	84	84	60
Total Expenses	$ 8,009,226	$ 1,104,962	$ 9,114,188	$ 645,426	$ 28,164	$ 9,787,778	$ 8,391,170

See notes to financial statements

Bronx Community Charter School

Statements of Cash Flows

	Year Ended June 30,	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 423,653	$ 417,426
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation and amortization	189,413	153,600
Deferred rent	47,131	43,065
Changes in operating assets and liabilities		
Grants and contracts receivable	(384)	35,871
Prepaid expenses and other current assets	(14,598)	21,001
Security deposits	-	(12,650)
Accounts payable and accrued expenses	69,942	56,472
Accrued payroll and payroll taxes	132,823	83,200
Net Cash from Operating Activities	847,980	797,985
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(113,947)	(779,723)
Restricted cash	(75)	(75)
Net Cash from Investing Activities	(114,022)	(779,798)
Net Change in Cash and Cash Equivalents	733,958	18,187
CASH AND CASH EQUIVALENTS		
Beginning of year	1,593,737	1,575,550
End of year	$ 2,327,695	$ 1,593,737

See notes to financial statements

1. Organization and Tax Status

Bronx Community Charter School (the "School") is a New York State, not-for-profit educational corporation that was incorporated on January 15, 2008 to operate a charter school pursuant to Article 56 of the Education Law of the State of New York. The School was granted a provisional charter on January 15, 2008 valid for a term of five years and renewable upon expiration by the Board of Regents of the University of the State of New York. During 2015, the Board of Regents extended the School's charter for an additional five-year term expiring on June 30, 2020. The School is a small learning community founded on the principle that children learn best when they are active participants in their own learning. The students raise questions about the world around them, engage with a wide range of materials, and learn through their interactions with each other and all of the adults in the School community. Classes commenced in the Bronx, New York, in August 2008 and the School provided education to approximately 509 students in kindergarten through eighth grade in the 2017-2018 academic year.

The New York City Department of Education provides free lunches directly to the School's students. Such costs are not included in these financial statements. The Office of Pupil Transportation provides free transportation to the majority of the students during the district's school days.

Except for taxes that may be due for unrelated business income, the School is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and from state and local income taxes under comparable laws.

2. Summary of Significant Accounting Policies

Basis of Presentation and Use of Estimates

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"), which requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly actual results could differ from those estimates.

Net Assets Presentation

Resources for various purposes are classified for accounting and reporting purposes into net asset categories established according to nature and purpose as follows:

Unrestricted - consist of resources available for the general support of the School's operations. Unrestricted net assets may be used at the discretion of the School's management and Board of Trustees.

2. Summary of Significant Accounting Policies *(continued)*

Net Assets Presentation (continued)

Temporarily Restricted - represent amounts restricted by donors for specific activities of the School or to be used at some future date. The School records contributions as temporarily restricted if they are received with donor stipulations that limit their use either through purpose or time restrictions. When a donor restriction expires, that is, when a time restriction ends or a purpose restriction is fulfilled, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions. However, when restrictions on donor-restricted contributions are met in the same accounting period in which they are received, such amounts are reported as unrestricted net assets.

Permanently Restricted - consist of net assets that are subject to donor imposed restrictions that require the School to maintain them permanently, including funds that are subject to restrictions of gift instruments requiring that the principal be invested in perpetuity and the income be used for specific or general purposes. Income and gains earned on endowment fund investments are available to be used in the unrestricted or temporarily restricted net asset classes based upon stipulations by the donors.

The School had no temporarily or permanently restricted net assets at June 30, 2018 and 2017.

Cash and Cash Equivalents

Cash and cash equivalents include cash balances held in bank accounts and highly liquid debt instruments with maturities of three months or less at the time of purchase.

Restricted Cash

Under the provisions of its charter, the School established an escrow account to pay for legal and audit expenses that would be associated with a dissolution, should it occur.

Property and Equipment

The School follows the practice of capitalizing all expenditures for property and equipment with costs in excess of $1,000 and a useful life in excess of one year. Leasehold improvements are amortized over the shorter of the term of the lease, inclusive of all renewal periods, which are reasonably assured, or the estimated useful life of the asset which is fifteen years. Purchased property and equipment are recorded at cost at the date of acquisition. Minor costs of maintenance and repairs are expensed as incurred. All property and equipment purchased with government funding is capitalized, unless the government agency retains legal title to such assets, in which case it is expensed as incurred.

2. Summary of Significant Accounting Policies *(continued)*

Property and Equipment (continued)

Depreciation and amortization is recognized on the straight-line method over the estimated useful lives of such assets as follows:

Computers and equipment	3 years
Furniture and fixtures	7 years

Property and equipment are reviewed for impairment if the use of the asset significantly changes or another indicator of possible impairment is identified. If the carrying amount for the asset is not recoverable, the asset is written down to its fair value. There were no asset impairments for the years ended June 30, 2018 and 2017.

Revenue and support

Revenue from the state and local governments resulting from the School's charter status and based on the number of students enrolled is recorded when services are performed in accordance with the charter agreement. Federal and other state and local funds are recorded when expenditures are incurred and billable to the government agency.

Contributions are recognized when the donor makes a promise to give to the School that is, in substance, unconditional. Grants and other contributions of cash are reported as temporarily restricted support if they are received with donor stipulations. Restricted contributions and grants that are made to support the School's current year activities are recorded as unrestricted revenue. Contributions of assets other than cash are recorded at their estimated fair value at the date of donation.

Functional Expense Allocation

The majority of expenses can generally be directly identified with the program or supporting service to which they relate and are charged accordingly. Other expenses by function have been allocated among program and supporting services classifications on the basis of periodic time and expense studies and other basis as determined by management of the School to be appropriate.

Accounting for Uncertainty in Income Taxes

The School recognizes the effect of income tax positions only if those positions are more likely than not to be sustained. Management has determined that the School had no uncertain tax positions that would require financial statement recognition or disclosure. The School is no longer subject to examinations by the applicable taxing jurisdictions for years prior to June 30, 2015.

2. Summary of Significant Accounting Policies *(continued)*

Deferred Rent

The School records its rent in accordance with U.S. GAAP guidance whereby all rental payments, including fixed rent increases, are recognized on a straight-line basis as an offset to rent expense. The difference between the straight-line rent expense and the required lease payments, as well as any unamortized lease incentives, is reflected in deferred rent in the accompanying statements of financial position.

Prior Year Summarized Comparative Financial Information

The statement of functional expenses includes prior-year summarized comparative information in total but not by function. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. GAAP. Accordingly, such information should be read in conjunction with the School's statement of functional expenses for the year ended June 30, 2017, from which the summarized information was derived.

Subsequent Events Evaluation by Management

Management has evaluated subsequent events for disclosure and/or recognition in the financial statements through the date that the financial statements were available to be issued, which date is September 27, 2018.

3. Grants and Contracts Receivable

Grants and contracts receivable consist of federal, state, and city entitlements and grants. The School expects to collect these receivables within one year.

4. Property and Equipment

Property and equipment consists of the following at June 30:

	2018	2017
Computers and other equipment	$ 275,729	$ 209,869
Furniture and fixtures	213,691	187,129
Leasehold improvements	1,843,309	1,821,784
	2,332,729	2,218,782
Accumulated depreciation and amortization	(764,740)	(575,327)
	$ 1,567,989	$ 1,643,455

5. Employee Benefit Plan

The School maintains a pension plan qualified under Internal Revenue Code 401(k) for the benefit of its eligible employees. Under the plan, the School will match employee contributions up to 4.5% of annual compensation. The amount charged for matching contributions and administrative fees to this plan was $181,752 and $133,340 for the years ended June 30, 2018 and 2017.

6. Concentration of Credit Risk

Financial instruments that potentially subject the School to concentrations of credit and market risk consist principally of cash and cash equivalents on deposit with financial institutions, which from time to time may exceed the Federal Deposit Insurance Corporation ("FDIC") limit. The School does not believe that a significant risk of loss due to the failure of a financial institution presently exists. As of June 30, 2018 and 2017, approximately $2,143,000 and $1,410,000 of cash was maintained with an institution in excess of FDIC limits.

7. Concentration of Revenue and Support

The School receives a substantial portion of its revenue and support from the New York City Department of Education. For the years ended June 30, 2018 and 2017, the School received approximately 94% and 91% of its total revenue and support from the New York City Department of Education. If the charter school laws were modified, reducing or eliminating these revenues, the School's finances could be materially adversely affected.

8. Commitment

On May 18, 2011, and as amended at various subsequent dates, the School entered into an agreement to lease and construct permanent office and classroom space at 3170 Webster Avenue, Bronx, New York for a period of 15 years expiring on June 30, 2028. The lease calls for three 5 year options for an additional fifteen years through June 30, 2043. The lease provides for rent escalations and the School is responsible for utilities, real estate taxes and other operating expenses.

On June 28, 2016, the School entered into an agreement with Bronx SC, LLC for additional classroom space at 3170 Webster Avenue, Bronx, New York for a period of 12 years expiring June 30, 2028. The lease calls for a 5 year option to extend the lease through June 30, 2033. The School moved into this space during the 2016-2017 school year.

The School recognizes rent expense on a straight-line basis over the term of the lease. Rent expense in excess of payments is recorded as deferred rent in the accompanying statements of financial position. Facility expense for the years ended June 30, 2018 and 2017 was $1,013,972 and $930,192.

8. Commitment *(continued)*

The future minimum lease payments under the two leases is as follows for the years ending June 30:

2019	$ 932,809
2020	934,615
2021	936,461
2022	938,349
2023	940,279
Thereafter	5,119,833
	$ 9,802,346

9. Donated Services

Donated services are recognized as contributions in accordance with U.S. GAAP if the services create or enhance non-financial assets, require specialized skills, are performed by people with those skills, and would otherwise be purchased by the School, and are measurable. One entity has provided field trips to the School at no charge. The value of these services meets the criteria for recognition in the financial statements and was recorded at fair value. For the years ended June 30, 2018 and 2017, the value of such donated services amounted to $6,136 and $-0-.

The value of these donated services is allocated accordingly between regular and special education programs in the accompanying statements of activities and functional expenses.

10. Union Agreement

On February 1, 2014, the School entered into a Collective Bargaining Agreement ("CBA") with the United Federation of Teachers ("UFT") that expired on June 30, 2015. Under the CBA, the School is required to follow a Due Process for teacher discipline, terminations, and suspension. As specified in the CBA and among others, the School shall maintain a student-teacher ratio, follow a salary step schedule based on years of experience, provide employment benefits and paid leaves. The School is not obligated to contribute into the Teachers Retirement System. During the 2014-2015 school year, the CBA was extended for an additional four-year term expiring on June 30, 2019.

11. Contingency

Certain grants and contracts may be subject to audit by the funding sources. Such audits might result in disallowances of costs submitted for reimbursement. Management is of the opinion that such cost disallowances, if any, will not have a material effect on the accompanying financial statements. Accordingly, no amounts have been provided in the accompanying financial statements for such potential claims.

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PKF O'CONNOR DAVIES
ACCOUNTANTS AND ADVISORS

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*

Independent Auditors' Report

Board of Trustees
Bronx Community Charter School

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 Community Charter School (the "School"), which comprise the statement of financial position as of June 30, 2018, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated September 27, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the 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 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, and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a deficiency in internal control, described in the accompanying schedule of findings and responses as item 2018-001 that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School's 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.

The School's Response to the Finding

The School's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. The School's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 School'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 School's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

PKF O'Connor Davies, LLP
Harrison, New York
September 27, 2018

Bronx Community Charter School

Schedule of Findings and Responses
Year Ended June 30, 2018

Section I - Financial Statement Findings

2018-001- Competitive Bidding

Criteria
The School's financial policies and procedures manual ("FPP") requires a formal bid process consisting of three price quotes for purchases and/or contracts greater than $5,000.

Condition
During our test of three procurement transactions over $5,000, we noted that the School did not perform competitive bidding on all three samples.

Cause
This condition is caused by lack of oversight over the policy for competitive bidding.

Effect
The School is not in compliance with its FPP. Lack of control over competitive bidding limits the School from selecting the most responsive and responsible vendor to provide required materials and services, and does not promote competition in order for the School to obtain fair and reasonable prices.

Recommendation
The School should strictly comply with the FPP and retain required documentation of at least three quotes when competitive bidding is required. We recommend that management periodically review transactions that require competitive bidding. We also recommend that management considers increasing the threshold for bidding.

Views of Responsible Officials
See management corrective action plan in Exhibit A.

Bronx Community Charter School

October 11, 2018

The Department of Education of the City of New York

The State Education Department of the State University of New York

Exhibit A: Management Corrective Action Plan

2018-001 – Competitive Bidding

The School will strictly comply with the FPP and will retain required documentation of at least three quotes when competitive bidding is required. Management will periodically review transactions that require competitive bidding. The School will update the financial policies and procedures manual ("FPP") to require a formal bid process consisting of three price quotes for purchases and/or contracts greater than $25,000.

Leslie Gardner
Director of Finance