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

**Consolidated Financial Statements**

**Years Ended June 30, 2012 and 2011**  
**(Together with Independent Auditors' Report)**



**BRONX LIGHTHOUSE CHARTER SCHOOL, INC. AND AFFILIATE**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**(Together with Independent Auditors' Report)**  
**YEARS ENDED JUNE 30, 2012 AND JUNE 30, 2011**

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## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated statements of financial position of Bronx Lighthouse Charter School, Inc. and Affiliate (collectively, the "School") as of June 30, 2012 and 2011, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of the School'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 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 audits 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Bronx Lighthouse Charter School, Inc. and Affiliate as of June 30, 2012 and 2011, 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.

Our audits were made for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The consolidating information on pages 17 - 20 is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations, and cash flows of the individual companies. Such information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic consolidated financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2012, on our consideration of the School's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants 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 audits.



New York, New York  
October 31, 2012

**BRONX LIGHTHOUSE CHARTER SCHOOL, INC. AND AFFILIATE**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
**AS OF JUNE 30, 2012 AND 2011**

	<b>2012</b>	<b>2011</b>
<b>ASSETS</b>		
Cash (including restricted cash of \$4,348,275 and \$11,617,441 (Notes 3 and 14))	\$ 7,636,301	\$ 13,627,731
Receivables (Note 4)	130,167	473,097
Prepaid expenses	64,443	17,407
Security deposits	35,610	22,970
Construction in progress (Note 5)	10,484,063	2,128,757
Land (Note 6)	2,231,880	2,231,880
Fixed assets - net (Notes 2F and 7)	226,340	26,524
<b>TOTAL ASSETS</b>	<b>\$ 20,808,804</b>	<b>\$ 18,528,366</b>
<b>LIABILITIES</b>		
Accounts payable and accrued expenses	\$ 1,244,592	\$ 832,251
Accrued payroll and payroll taxes	215,277	219,595
Accrued compensated absences	41,000	51,591
Deferred Revenue (Note 2G)	3,162	-
Capital Leases (Note 8)	172,122	-
Loans payable (Note 9)	13,340,000	13,340,000
<b>TOTAL LIABILITIES</b>	<b>15,016,154</b>	<b>14,443,437</b>
<b>COMMITMENTS AND CONTINGENCIES (Notes 10 and 15)</b>		
<b>NET ASSETS (Note 2C)</b>		
Unrestricted-Board Designated for Facility	937,940	593,814
Unrestricted	4,854,710	3,491,115
<b>TOTAL NET ASSETS</b>	<b>5,792,650</b>	<b>4,084,929</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 20,808,804</b>	<b>\$ 18,528,366</b>

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, 2012 AND 2011**

	<b>2012</b>	<b>2011</b>
<b>REVENUE AND SUPPORT:</b>		
Student enrollment fees (Note 14)	\$ 7,502,481	\$ 6,890,103
Federal grants	349,050	708,260
State grants	70,377	-
Public support	2,344	10,210
Interest	6,373	8,211
Other	129,672	81,630
In-kind contributions (Note 13)	614,824	612,028
 Total revenue and support	 8,675,121	 8,310,442
 <b>EXPENSES:</b>		
Program services:		
Educational services	5,909,156	5,731,176
Total program expenses	5,909,156	5,731,176
 Supporting services:		
Management and general	1,050,339	927,927
Fundraising	2,467	3,504
BLCS property holding company	5,438	8,756
Total supporting services	1,058,244	940,187
 Total expenses	 6,967,400	 6,671,363
 <b>CHANGE IN NET ASSETS</b>	 1,707,721	 1,639,079
 NET ASSETS - Beginning of Year	 4,084,929	 2,445,850
 <b>NET ASSETS - End of Year</b>	 \$ 5,792,650	 \$ 4,084,929

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, 2012**

	<b>SUPPORTING SERVICES</b>				<b>TOTAL 2012</b>
	<b>EDUCATIONAL SERVICES</b>	<b>BLCS PROPERTY HOLDING COMPANY</b>	<b>FUNDRAISING</b>	<b>MANAGEMENT AND GENERAL</b>	
Salaries	\$ 3,431,177	\$ -	\$ -	\$ 367,453	\$ 3,798,630
Payroll taxes and fringe benefits (Note 12)	782,190	-	-	83,767	865,957
<b>Total Salaries and Related Costs</b>	<b>4,213,367</b>	<b>-</b>	<b>-</b>	<b>451,220</b>	<b>4,664,587</b>
Professional fees and consultants	67,381	2,400	-	77,880	147,661
Management fees (Notes 11 and 15)	-	-	-	200,000	200,000
Contracted services - other	47,829	-	-	42,659	90,488
Supplies and equipment purchases (Note 2F)	339,741	-	-	59,278	399,019
Advertising	-	-	-	447	447
Food	21,179	-	-	-	21,179
Insurance	-	2,837	-	67,084	69,921
Library	62,180	-	-	-	62,180
Repairs and maintenance	76,769	-	-	8,530	85,299
Occupancy - other	29,707	-	-	1,904	31,611
Printing	-	-	-	22,316	22,316
Staff development and recruitment	149,735	-	-	-	149,735
Telecommunications	39,591	-	-	4,399	43,990
Field trips and other activities	39,582	-	-	-	39,582
Travel	6,913	-	-	-	6,913
Utilities	200,765	-	-	22,307	223,072
In-kind contribution - facility (Note 13)	532,350	-	-	52,650	585,000
In-kind contribution - textbooks (Note 13)	29,824	-	-	-	29,824
Other	9,399	201	2,467	31,823	43,890
Interest	-	-	-	7,842	7,842
Depreciation and amortization (Note 2F)	42,844	-	-	-	42,844
<b>Total Other Expenses</b>	<b>1,695,789</b>	<b>5,438</b>	<b>2,467</b>	<b>599,119</b>	<b>2,302,813</b>
<b>Total Operating Expenses</b>	<b>\$ 5,909,156</b>	<b>\$ 5,438</b>	<b>\$ 2,467</b>	<b>\$ 1,050,339</b>	<b>\$ 6,967,400</b>

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, 2011**

	<b>SUPPORTING SERVICES</b>				<b>TOTAL 2011</b>
	<b>EDUCATIONAL</b>	<b>BLCS PROPERTY HOLDING COMPANY</b>	<b>FUNDRAISING</b>	<b>MANAGEMENT AND GENERAL</b>	
Salaries	\$ 3,164,710	\$ -	\$ -	\$ 304,712	\$ 3,469,422
Payroll taxes and fringe benefits	874,861	-	-	84,216	959,077
<b>Total Salaries and Related Costs</b>	<b>4,039,571</b>	<b>-</b>	<b>-</b>	<b>388,928</b>	<b>4,428,499</b>
Professional fees and consultants	293,886	600	-	64,846	359,332
Management fees (Note 10)	-	-	-	180,000	180,000
Contracted services - other	47,650	-	-	31,165	78,815
Supplies and equipment purchases (Note 2F)	179,500	-	-	53,739	233,239
Advertising	-	-	-	4,255	4,255
Food	20,819	-	-	-	20,819
Insurance	-	7,956	-	72,281	80,237
Library	2,158	-	-	-	2,158
Repairs and maintenance	69,196	-	-	7,688	76,884
Occupancy - other	5,769	-	-	641	6,410
Printing	-	-	-	20,279	20,279
Staff development and recruitment	93,276	-	-	-	93,276
Telephone	23,099	-	-	2,567	25,666
Field trips and other activities	41,571	-	-	-	41,571
Travel	3,048	-	-	-	3,048
Utilities	200,538	-	-	22,282	222,820
In-kind contribution - facility (Note 12)	526,500	-	-	58,500	585,000
In-kind contribution - textbooks (Note 12)	27,028	-	-	-	27,028
Other	40,070	200	3,504	17,184	60,958
Interest	85,353	-	-	-	85,353
Depreciation and amortization	32,144	-	-	3,572	35,716
<b>Total Other Expenses</b>	<b>1,691,605</b>	<b>8,756</b>	<b>3,504</b>	<b>538,999</b>	<b>2,242,864</b>
<b>Total Operating Expenses</b>	<b>\$ 5,731,176</b>	<b>\$ 8,756</b>	<b>\$ 3,504</b>	<b>\$ 927,927</b>	<b>\$ 6,671,363</b>

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, 2012 AND 2011**

	<b>2012</b>	<b>2011</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Change in net assets	\$ 1,707,721	\$ 1,639,079
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	42,844	35,716
Changes in:		
Receivables	342,930	(168,815)
Prepaid expenses	(47,036)	(17,407)
Prepaid construction costs	-	427,029
Security deposits	(12,640)	(6,000)
Accounts payable and accrued expenses	412,341	360,057
Accrued payroll and payroll taxes	(4,318)	15,929
Accrued compensated absences	(10,591)	9,547
Refund due to NYC DOE	-	(58,001)
Deferred revenue	3,162	(3,782)
	<u>2,434,413</u>	<u>2,233,352</u>
Net cash provided by operating activities		
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of fixed assets	(242,661)	(7,258)
Purchase of land	-	(2,231,880)
Construction in progress	(8,355,306)	(2,128,757)
	<u>(8,597,967)</u>	<u>(4,367,895)</u>
Net cash used in investing activities		
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from loans payable	-	13,340,000
Proceeds from capital leases	186,939	-
Payment of capital leases	(14,817)	-
	<u>172,122</u>	<u>13,340,000</u>
Net cash provided by financing activities		
<b>NET (DECREASE) INCREASE IN CASH</b>	(5,991,430)	11,205,458
CASH, Beginning of Year	<u>13,627,731</u>	<u>2,422,273</u>
<b>CASH, End of Year</b>	<u>\$ 7,636,301</u>	<u>\$ 13,627,731</u>
<b><u>SUPPLEMENTAL DATA:</u></b>		
Interest paid	<u>\$ 7,842</u>	<u>\$ 85,353</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, 2012 AND 2011**

**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 eighth grade 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. On April 21, 2009, the School was granted a second charter renewal through May 17, 2014 by the Board of Regents of the University of the State of New York on behalf of the 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 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.

**BRONX LIGHTHOUSE CHARTER SCHOOL, INC. AND AFFILIATE**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2012 AND 2011**

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

D) **Fair Value Measurements** - Fair value measurements are based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In order to increase consistency and comparability in fair value measurements, a fair value hierarchy prioritizes observable and unobservable inputs used to measure fair value into three levels as follows:

The fair value hierarchy is categorized into three levels based on inputs as follows:

Level 1 – Valuations based on quoted prices (unadjusted) in active markets that are accessible at the measurement date for identical securities assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.

Level 2 – Valuations based on observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in inactive markets; or model-derived valuations in which all significant inputs are observable or can be derived principally from or corroborated with observable market data.

Level 3 – Valuations based on unobservable inputs are used when little or no market data is available. The fair value hierarchy gives lowest priority to Level 3 inputs.

In determining fair value, the School utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible in its assessment of fair value.

The School has no investments in equity securities or debt instruments.

E) **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.

F) **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. Expenditures for repairs and maintenance are expensed as incurred.

The cost of furniture and equipment that are reimbursed by government funding agencies are not capitalized due to the reversionary interest terms in their respective agreements. Accordingly, title to such assets remains in the name of the funding agency. Purchases of furniture and equipment of \$100,017 in 2012 and \$23,783 in 2011 were recorded as expense because of such reimbursements and are included in the consolidated statement of functional expenses in the accompanying financial statements.

**BRONX LIGHTHOUSE CHARTER SCHOOL, INC. AND AFFILIATE  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2012 AND 2011**

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

G) **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 statement of financial position. For the years ended June 30, 2012 and 2011, deferred revenue from grants totaled \$3,162 and \$0, respectively.

H) **Tax Status** - The School has no uncertain tax positions as of June 30, 2012 and 2011 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. The School is no longer subject to federal, state and local income tax examinations by tax authorities for years before 2009.

I) **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.

J) **Reclassifications** - Certain line items in the June 30, 2011 financial statements have been reclassified to conform to the June 30, 2012 presentation.

**NOTE 3 – RESTRICTED CASH**

Restricted cash consists of the following:

	<u>2012</u>	<u>2011</u>
A) Construction account	\$ 3,410,335	\$ 11,023,627
B) Facility reserve	411,124	360,144
C) Sinking fund	379,999	100,000
D) NYC DOE contingency	70,231	70,195
E) Lease reserve	<u>76,586</u>	<u>63,475</u>
Totals	<u>\$ 4,348,275</u>	<u>\$ 11,617,441</u>

- A) BPHC received funding pursuant to a facility financing from the issuance of new debt (see Note 8). The proceeds were held in a restricted trustee account, the “construction account” for the purpose of financing construction costs. As of June 30, 2012 and 2011, the balance in the construction account was \$3,410,335 and \$11,023,627, respectively.
- B) The School has created a facility reserve for future major repairs and replacement to the building. As of June 30, 2012 and 2011, the balance in the facility replacement reserve was \$411,124 and \$360,144, respectively.

**BRONX LIGHTHOUSE CHARTER SCHOOL, INC. AND AFFILIATE  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2012 AND 2011**

**NOTE 3 – RESTRICTED CASH (Continued)**

- C) The School set up a new cash account as required by the facility financing covenants (the “sinking fund”) that is used to pay off future debt. As of June 30, 2012 and 2011, the sinking fund was \$379,999 and \$100,000, respectively.
- D) 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, 2012 and 2011, the balance in the dissolution reserve was \$70,231 and \$70,195, respectively.
- E) 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, 2012 and 2011, the balance in the lease reserve was \$76,586 and \$63,475, respectively.

**NOTE 4 – RECEIVABLES**

Receivables consist of the following:

	2012	2011
U.S. Department of Education	\$ 70,377	\$ 227,149
State Education Department	11,533	152,348
New York City Department of Education	-	42,135
Other	48,257	51,465
	\$ 130,167	\$ 473,097

**NOTE 5 – CONSTRUCTION IN PROGRESS**

During the fiscal year ended June 30, 2011, the School began construction of a 30,000 square foot charter school facility located adjacent to 1001 Interval Avenue, Bronx, New York. The new facility will serve approximately 220 students in grades 9 through 12. As of June 30, 2012 and 2011, construction in progress totaled \$10,484,063 and \$2,128,757, respectively.

**NOTE 6 – LAND**

During the fiscal year ending June 30, 2011, the School purchased a parcel of land for \$2,231,880. The School transferred the ownership of the land to its affiliate, BPHC. The land is being used to construct a new school facility (see Note 5).

**BRONX LIGHTHOUSE CHARTER SCHOOL, INC. AND AFFILIATE  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2012 AND 2011**

**NOTE 7 – FIXED ASSETS**

Fixed assets consist of the following:

	<u>2012</u>	<u>2011</u>
Furniture and equipment	\$ 631,574	\$ 388,513
Less: accumulated depreciation/amortization	<u>(405,234)</u>	<u>(361,989)</u>
Net book value	<u>\$ 226,340</u>	<u>\$ 26,524</u>

**NOTE 8 – CAPITAL LEASES PAYABLE**

During 2012, the school purchased equipment through a capital lease. The lease calls for sixty monthly payments with an imputed interest rate varying from 7.5% to 7.8%. As of June 30, 2012, the outstanding balance was \$172,122. The lease obligation is as follows:

<u>For the Years Ending June 30,</u>	<u>Amount</u>
2013	\$ 33,936
2014	36,700
2015	39,690
2016	42,924
2017	<u>18,872</u>
Total obligation	<u>\$ 172,122</u>

**NOTE 9 – 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 are to be used for the development of a charter school facility that will serve approximately 220 students from grades 9 through 12. The loans are secured by all of the assets of the School. In addition, the loans are guaranteed by Lighthouse Academies, Inc. (See Note 15C) in the amount of \$500,000, until May 1, 2014.

**BRONX LIGHTHOUSE CHARTER SCHOOL, INC. AND AFFILIATE  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2012 AND 2011**

**NOTE 9 – LOANS PAYABLE (Continued)**

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

	<u>2012</u>	<u>2011</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>

- 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.
- 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.
- 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 is \$2,911,600.

**NOTE 10 – 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 by the bank's prime rate. There was no outstanding balance as of June 30, 2012 and 2011.

**NOTE 11 – MANAGEMENT FEES**

The School contracted the management of certain academic and business operations to Lighthouse Academies, Inc. The contract calls for a base management fee plus a bonus provision, subject to the School meeting certain milestones. The contract was extended for another five years in 2011. The management fee for the year ending June 30, 2012 and 2011 was \$200,000 and \$175,000, respectively. Travel and other direct expenses are also reimbursed to Lighthouse Academies, Inc. For the year ended June 30, 2012 and 2011, the management fee and bonus totaled \$200,000 and \$180,000.

**BRONX LIGHTHOUSE CHARTER SCHOOL, INC. AND AFFILIATE**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2012 AND 2011**

**NOTE 12 – 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, 2012 and 2011, the school had a safe harbor matching employer contribution of \$36,041 and \$65,162, respectively. For the year ended June 30, 2012 and 2011, the school did not make a discretionary contribution. Employer profit sharing contributions made to the plan are fully vested in three years.

**NOTE 13 – 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 2011. The annual fee for the use of the dedicated space is \$1. The fair market value for the use of the space was \$585,000 for the year ended June 30, 2012 and 2011.

The School also received donated textbooks and other technology related donations throughout the year. The fair market value for these donations was \$29,824 in 2012 and \$27,028 in 2011.

**NOTE 14 – CONCENTRATION OF CREDIT RISK**

Financial instruments that potentially subject the School to a concentration of credit risk include cash accounts with banks that may exceed the Federal Deposit Insurance Corporation ("FDIC") insurance limits. In 2010, the FDIC insurance limit was permanently increased to \$250,000 and, beginning December 31, 2010 through December 31, 2012, deposits held in non-interest-bearing accounts will be fully insured, regardless of the amount in the account, at all FDIC-insured institutions.

Concentration of risk also exists between the School and the New York City Department of Education. For the year ended June 30, 2012 and 2011, the School received 83% of its funding from the New York City Department of Education in the form of student enrollment fees.

**NOTE 15 – RELATED PARTY TRANSACTIONS**

- A) The School has a management fee arrangement with Lighthouse Academies, Inc., to provide educational and business services (see Note 11). A Regional Vice President and a board member of Lighthouse Academies, Inc. are also board members of the School.
- B) In May 2011, the School entered into a project management contract with Charter Facilities Management, LLC, a subsidiary of Lighthouse Academies, Inc., in the amount of \$245,000 to manage the development of a new facility for a high school.
- C) In June 2011, Lighthouse Academies, Inc. provided a limited guaranty of \$500,000 guaranteeing the debt service on BPHC's promissory notes (see Note 9) in exchange for a one-time fee of \$35,000. The guaranty agreement expires May 1, 2014.

**BRONX LIGHTHOUSE CHARTER SCHOOL, INC. AND AFFILIATE  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2012 AND 2011**

**NOTE 15 – RELATED PARTY TRANSACTIONS (Continued)**

- D) The School received reimbursement for certain expenses shared with another charter school, which also has a management service agreement with Lighthouse Academies, Inc. In 2012 and 2011, the reimbursement was \$29,150 and \$29,760, respectively. This amount is reflected in Other income on the accompanying consolidated statement of activities.

**NOTE 16 – 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, 2012, the date the financial statements were available to be issued. No events have occurred subsequent to the consolidated statement of financial position date through October 31, 2012 that would require adjustment to or disclosure in the financial statements.



**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 the consolidated financial statements of Bronx Lighthouse Charter School, Inc. and Affiliate (collectively, the "School") as of and for the year ended June 30, 2012, and have issued our report thereon dated October 31, 2012. 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 the School's 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 School's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the School'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, and correct misstatements on a timely basis. A material weakness is a significant deficiency, or combination of significant 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.

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 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*.

This report is intended solely for the information and use of management, the board of directors, 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.

A handwritten signature in black ink that reads "Marks Paneth + Shron LLP". The signature is written in a cursive, flowing style.

New York, New York  
October 31, 2012

## **SUPPLEMENTARY INFORMATION**

**BRONX LIGHTHOUSE CHARTER SCHOOL, INC. AND AFFILIATE**  
**CONSOLIDATING STATEMENT OF FINANCIAL POSITION**  
**FOR THE YEAR ENDED JUNE 30, 2012**

	<b>BRONX LIGHTHOUSE CHARTER SCHOOL</b>	<b>BLCS PROPERTY HOLDING COMPANY INC</b>	<b>PRE- CONSOLIDATED TOTAL</b>	<b>CONSOLIDATING ELIMINATIONS</b>	<b>CONSOLIDATED TOTAL 2012</b>
<b>ASSETS</b>					
Cash (including restricted cash) (Notes 3 and 13)	\$ 4,158,781	\$ 3,477,521	\$ 7,636,301	\$ -	\$ 7,636,301
Receivables (Note 4)	130,167	-	130,167	-	130,167
Prepaid expenses	64,443	-	64,443	-	64,443
Security deposits	35,610	-	35,610	-	35,610
Construction in progress (Note 5)	-	10,484,063	10,484,063	-	10,484,063
Land (Note 6)	-	2,231,880	2,231,880	-	2,231,880
Fixed assets - net (Notes 2F and 7)	226,340	-	226,340	-	226,340
	<u>226,340</u>	<u>-</u>	<u>226,340</u>	<u>-</u>	<u>226,340</u>
<b>TOTAL ASSETS</b>	<b>\$ 4,615,341</b>	<b>\$ 16,193,464</b>	<b>\$ 20,808,804</b>	<b>\$ -</b>	<b>\$ 20,808,804</b>
<b>LIABILITIES</b>					
Accounts payable and accrued expenses	\$ 180,253	\$ 1,064,339	\$ 1,244,592	\$ -	\$ 1,244,592
Accrued payroll and payroll taxes	215,277	-	215,277	-	215,277
Accrued compensated absences	41,000	-	41,000	-	41,000
Deferred Revenue	3,162	-	3,162	-	3,162
Capital Leases Payable	172,122	-	172,122	-	172,122
Loans payable (Note 8)	-	13,340,000	13,340,000	-	13,340,000
	<u>-</u>	<u>13,340,000</u>	<u>13,340,000</u>	<u>-</u>	<u>13,340,000</u>
<b>TOTAL LIABILITIES</b>	<b>611,815</b>	<b>14,404,339</b>	<b>15,016,154</b>	<b>-</b>	<b>15,016,154</b>
<b>NET ASSETS (Note 2C)</b>					
Unrestricted	<u>4,003,526</u>	<u>1,789,124</u>	<u>5,792,650</u>	<u>-</u>	<u>5,792,650</u>
<b>TOTAL NET ASSETS</b>	<b>4,003,526</b>	<b>1,789,124</b>	<b>5,792,650</b>	<b>-</b>	<b>5,792,650</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 4,615,341</b>	<b>\$ 16,193,463</b>	<b>\$ 20,808,804</b>	<b>\$ -</b>	<b>\$ 20,808,804</b>

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

**BRONX LIGHTHOUSE CHARTER SCHOOL, INC. AND AFFILIATE**  
**CONSOLIDATING STATEMENT OF FINANCIAL POSITION**  
**FOR THE YEAR ENDED JUNE 30, 2011**

	<b>BRONX LIGHTHOUSE CHARTER SCHOOL</b>	<b>BLCS PROPERTY HOLDING COMPANY INC</b>	<b>PRE- CONSOLIDATED TOTAL</b>	<b>CONSOLIDATING ELIMINATIONS</b>	<b>CONSOLIDATED TOTAL 2011</b>
<b>ASSETS</b>					
Cash (including restricted cash) (Notes 3 and 13)	\$ 2,604,105	\$ 11,023,626	\$ 13,627,731	\$ -	\$ 13,627,731
Receivables (Note 4)	473,097	8,356	481,453	(8,356)	473,097
Prepaid expenses	17,407	-	17,407	-	17,407
Security deposits	22,970	-	22,970	-	22,970
Construction in progress (Note 5)	-	2,128,757	2,128,757	-	2,128,757
Land (Note 6)	-	2,231,880	2,231,880	-	2,231,880
Fixed assets - net (Notes 2F and 7)	26,524	-	26,524	-	26,524
<b>TOTAL ASSETS</b>	<b>\$ 3,144,103</b>	<b>\$ 15,392,619</b>	<b>\$ 18,536,722</b>	<b>\$ (8,356)</b>	<b>\$ 18,528,366</b>
<b>LIABILITIES</b>					
Accounts payable and accrued expenses	\$ 307,821	\$ 532,786	\$ 840,607	\$ (8,356)	\$ 832,251
Accrued payroll and payroll taxes	219,595	-	219,595	-	219,595
Accrued compensated absences	51,591	-	51,591	-	51,591
Loans payable (Note 8)	-	13,340,000	13,340,000	-	13,340,000
<b>TOTAL LIABILITIES</b>	<b>579,007</b>	<b>13,872,786</b>	<b>14,451,793</b>	<b>(8,356)</b>	<b>14,443,437</b>
<b>NET ASSETS (Note 2C)</b>					
Unrestricted	2,565,096	1,519,833	4,084,929	-	4,084,929
<b>TOTAL NET ASSETS</b>	<b>2,565,096</b>	<b>1,519,833</b>	<b>4,084,929</b>	<b>-</b>	<b>4,084,929</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 3,144,103</b>	<b>\$ 15,392,619</b>	<b>\$ 18,536,722</b>	<b>\$ (8,356)</b>	<b>\$ 18,528,366</b>

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

**BRONX LIGHTHOUSE CHARTER SCHOOL, INC. AND AFFILIATE  
CONSOLIDATING STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS  
FOR THE YEAR ENDED JUNE 30, 2012**

	<b>BRONX LIGHTHOUSE CHARTER SCHOOL</b>	<b>BLCS PROPERTY HOLDING COMPANY INC</b>	<b>PRE- CONSOLIDATED TOTAL</b>	<b>CONSOLIDATING ELIMINATIONS</b>	<b>CONSOLIDATED TOTAL 2012</b>
<b>REVENUE AND SUPPORT:</b>					
Student enrollment fees	\$ 7,502,481	\$ -	\$ 7,502,481	\$ -	\$ 7,502,481
Federal grants	349,050	-	349,050	-	349,050
State grants	70,377	-	70,377	-	70,377
Public support	2,344	-	2,344	-	2,344
Interest	6,373	-	6,373	-	6,373
Other	129,157	515	129,672	-	129,672
Rental income from BLCS	-	286,765	286,765	(286,765)	-
In-kind contributions (Note 12)	614,824	-	614,824	-	614,824
	<u>8,674,606</u>	<u>287,280</u>	<u>8,961,886</u>	<u>(286,765)</u>	<u>8,675,121</u>
Total revenue and support					
<b>EXPENSES:</b>					
Program services:					
Educational Services	6,167,245	-	6,167,245	(258,089)	5,909,156
Total program expenses	<u>6,167,245</u>	<u>-</u>	<u>6,167,245</u>	<u>(258,089)</u>	<u>5,909,156</u>
Supporting services:					
Management and general	1,061,026	17,989	1,079,015	(28,676)	1,050,339
BLCS Property Holding Company	5,438	-	5,438	-	5,438
Fundraising Expenses	2,467	-	2,467	-	2,467
Total supporting services	<u>1,068,931</u>	<u>17,989</u>	<u>1,086,920</u>	<u>(28,676)</u>	<u>1,058,244</u>
Total expenses	<u>7,236,176</u>	<u>17,989</u>	<u>7,254,165</u>	<u>(286,765)</u>	<u>6,967,400</u>
<b>CHANGE IN NET ASSETS</b>	1,438,430	269,291	1,707,721	-	1,707,721
NET ASSETS - Beginning of Year	<u>2,565,096</u>	<u>1,519,833</u>	<u>4,084,929</u>	<u>-</u>	<u>4,084,929</u>
<b>NET ASSETS - End of Year</b>	<u>\$ 4,003,526</u>	<u>\$ 1,789,124</u>	<u>\$ 5,792,650</u>	<u>\$ -</u>	<u>\$ 5,792,650</u>

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

**BRONX LIGHTHOUSE CHARTER SCHOOL, INC. AND AFFILIATE  
CONSOLIDATING STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS  
FOR THE YEAR ENDED JUNE 30, 2011**

	<b>BRONX LIGHTHOUSE CHARTER SCHOOL</b>	<b>BLCS PROPERTY HOLDING COMPANY INC</b>	<b>PRE- CONSOLIDATED TOTAL</b>	<b>CONSOLIDATING ELIMINATIONS</b>	<b>CONSOLIDATED TOTAL 2011</b>
<b>REVENUE AND SUPPORT:</b>					
Student enrollment fees	\$ 6,890,103	\$ -	\$ 6,890,103	\$ -	\$ 6,890,103
Federal grants	708,260	-	708,260	-	708,260
Public support	10,210	-	10,210	-	10,210
Interest	8,211	-	8,211	-	8,211
Other	81,630	-	81,630	-	81,630
Contribution from BLCS	-	1,604,585	1,604,585	(1,604,585)	-
Rental income from BLCS	-	9,356	9,356	(9,356)	-
In-kind contributions (Note 12)	612,028	-	612,028	-	612,028
	<u>8,310,442</u>	<u>1,613,941</u>	<u>9,924,383</u>	<u>(1,613,941)</u>	<u>8,310,442</u>
Total revenue and support					
<b>EXPENSES:</b>					
Program services:					
Educational Services	5,731,176	-	5,731,176	-	5,731,176
Total program expenses	<u>5,731,176</u>	<u>-</u>	<u>5,731,176</u>	<u>-</u>	<u>5,731,176</u>
Supporting services:					
Management and general	2,456,516	85,352	2,541,868	(1,613,941)	927,927
BLCS Property Holding Company	-	8,756	8,756	-	8,756
Fundraising Expenses	3,504	-	3,504	-	3,504
Total supporting services	<u>2,460,020</u>	<u>94,108</u>	<u>2,554,128</u>	<u>(1,613,941)</u>	<u>940,187</u>
Total expenses	<u>8,191,196</u>	<u>94,108</u>	<u>8,285,304</u>	<u>(1,613,941)</u>	<u>6,671,363</u>
Change in net assets	119,246	1,519,833	1,639,079	-	1,639,079
Net assets - beginning of year	<u>2,445,850</u>	<u>-</u>	<u>2,445,850</u>	<u>-</u>	<u>2,445,850</u>
Net assets, end of year	<u>\$ 2,565,096</u>	<u>\$ 1,519,833</u>	<u>\$ 4,084,929</u>	<u>\$ -</u>	<u>\$ 4,084,929</u>

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