

La Cima Charter School

Financial Statements

June 30, 2017 and 2016

Independent Auditors' Report

Board of Trustees La Cima Charter School

We have audited the accompanying financial statements of La Cima Charter School (the "School"), which comprise the statements of financial position as of June 30, 2017, and the related statements of activities, functional expenses, and cash flows for the year 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 audit. 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. 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the School'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 School's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the School as of June 30, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Prior Period Financial Statements

The summarized comparative financial statements as of June 30, 2016 and for the year then ended, were audited by other auditors who ceased operations. Those auditors expressed an unmodified opinion on those financial statements in their report dated September 30, 2016.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 22, 2017, 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 22, 2017

La Cima Charter School

Statement of Financial Position
June 30, 2017
(with comparative amounts at June 30, 2016)

	2017	2016
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 527,800	\$ 1,283,418
Grants and contracts receivable	357,648	263,117
Prepaid expenses and other current assets	47,031	74,419
Total Current Assets	932,479	1,620,954
Investments	1,080,908	1,075,870
Property and equipment, net	513,000	551,711
Security deposits	14,000	13,500
Restricted cash	75,032	75,005
	\$ 2,615,419	\$ 3,337,040
 LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable and accrued expenses	\$ 130,436	\$ 212,062
Accrued payroll and payroll taxes	486,097	411,590
Refundable advances	4,012	5,412
Total Current Liabilities	620,545	629,064
Net assets, unrestricted	1,994,874	2,707,976
	\$ 2,615,419	\$ 3,337,040

La Cima Charter School

Statement of Activities

Year Ended June 30, 2017

(with summarized totals for the year ended June 30, 2016)

	<u>2017</u>	<u>2016</u>
REVENUE AND SUPPORT		
State and local per pupil operating revenue	\$ 5,717,825	\$ 6,404,346
Federal grants	260,627	264,588
State and city grants	29,636	32,617
Investment income, net	<u>5,270</u>	<u>7,715</u>
Total Revenue and Support	<u>6,013,358</u>	<u>6,709,266</u>
EXPENSES		
Program services		
Regular education	4,399,687	3,912,400
Special education	1,171,910	1,315,896
After school program	<u>8,467</u>	<u>77,884</u>
Total Program Services	5,580,064	5,306,180
Supporting services		
Management and general	<u>1,146,396</u>	<u>1,313,398</u>
Total Expenses	<u>6,726,460</u>	<u>6,619,578</u>
Change in Net Assets	(713,102)	89,688
NET ASSETS, UNRESTRICTED		
Beginning of year	<u>2,707,976</u>	<u>2,618,288</u>
End of year	<u>\$ 1,994,874</u>	<u>\$ 2,707,976</u>

La Cima Charter School

Statement of Functional Expenses

Year Ended June 30, 2017

(with summarized totals for the year ended June 30, 2016)

	2017							2016
	Program Services				Total	Management and		
	No. of Positions	Regular Education	Special Education	After School		General	Total	
Personnel services costs								
Administrative staff personnel	17	\$ 586,896	\$ 51,465	\$ -	\$ 638,361	\$ 673,100	\$ 1,311,461	\$ 1,389,842
Instructional personnel	49	2,266,903	788,717	6,060	3,061,680	-	3,061,680	2,690,073
Non-Instructional personnel	7	-	-	-	-	136,094	136,094	151,205
Total Salaries and Staff	<u>73</u>	<u>2,853,799</u>	<u>840,182</u>	<u>6,060</u>	<u>3,700,041</u>	<u>809,194</u>	<u>4,509,235</u>	<u>4,231,120</u>
Employee benefits and payroll taxes		551,452	162,352	1,171	714,975	156,364	871,339	949,692
Retirement		39,234	11,550	83	50,867	11,124	61,991	109,338
Staff development		75,652	11,084	-	86,736	34,727	121,463	200,508
Accounting/audit services		-	-	-	-	20,000	20,000	20,250
Other purchased/professional/consulting services		103,197	23,598	-	126,795	12,929	139,724	163,609
Marketing/recruitment		28,986	2,923	-	31,909	4,296	36,205	45,334
Supplies and materials		215,794	35,629	-	251,423	3,014	254,437	226,675
Food service		34,546	4,002	929	39,477	-	39,477	46,208
Student services		137,390	23,695	-	161,085	-	161,085	171,878
Office expenses		13,501	1,350	-	14,851	2,467	17,318	20,076
Insurance		17,786	5,236	38	23,060	5,043	28,103	28,338
Technology		170,221	17,022	-	187,243	25,533	212,776	159,381
Equipment/furnishings		5,453	940	-	6,393	7,409	13,802	11,985
Repairs and maintenance		64,822	6,482	-	71,304	9,723	81,027	22,579
Depreciation and amortization		87,854	25,865	186	113,905	24,911	138,816	157,323
Other expenses		-	-	-	-	19,662	19,662	55,284
Total Expenses		<u>\$ 4,399,687</u>	<u>\$ 1,171,910</u>	<u>\$ 8,467</u>	<u>\$ 5,580,064</u>	<u>\$ 1,146,396</u>	<u>\$ 6,726,460</u>	<u>\$ 6,619,578</u>

La Cima Charter School

Statement of Cash Flows
Year Ended June 30, 2017

(with summarized amounts for the year ended June 30, 2016)

	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (713,102)	\$ 89,688
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation and amortization	138,816	157,323
Unrealized gain on investments	(5,038)	(7,493)
Changes in operating assets and liabilities		
Grants and contracts receivable	(94,531)	(15,207)
Prepaid expenses and other current assets	27,388	460
Security deposits	(500)	(13,500)
Accounts payable and accrued expenses	(81,626)	(28,395)
Accrued payroll and payroll taxes	74,507	3,224
Refundable advances	(1,400)	(7,000)
Net Cash from Operating Activities	<u>(655,486)</u>	<u>179,100</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(100,105)	(102,202)
Restricted cash	<u>(27)</u>	<u>-</u>
Net Cash from Investing Activities	<u>(100,132)</u>	<u>(102,202)</u>
Net Change in Cash and Cash Equivalents	(755,618)	76,898
CASH AND CASH EQUIVALENTS		
Beginning of year	<u>1,283,418</u>	<u>1,206,520</u>
End of year	<u>\$ 527,800</u>	<u>\$ 1,283,418</u>

LaCima Charter School

Notes to Financial Statements
June 30, 2017 and 2016

1. Organization and Tax Status

La Cima 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 2016, the School renewed its charter for an additional five-year term expiring June 30, 2021. The School's mission is to prepare students for academic and life-long success through a rigorous and relevant academic program. The School's vision is to develop scholars who have the intellectual capacity, the emotional strength of character and the social capital to be individually successful, and to act as effective change-makers in their communities. Classes commenced in Bedford-Stuyvesant, Brooklyn, New York, in August 2008 and the School provided education to approximately 358 students in grades kindergarten through fifth during the 2016-2017 academic year.

The School shares space with a New York City public school at no annual cost. The School occupies approximately 9,750 square feet on one floor of a public school building. The School also shares the gymnasium and cafeteria with the public school which approximates 4,375 square feet. The School is not responsible for rent, utilities, custodial services, maintenance and school safety services other than security related to the School's programs that take place outside the district's school day. The School was unable to determine a value for the contributed space and related services and did not record any value for use of donated facilities.

The New York City Department of Education provides free lunches and reduced-price lunches and transportation directly to some of the School's students. Such costs are not included in these financial statements. The School covers the unreimbursed cost of lunches for children not entitled to the free lunches. The Office of Pupil Transportation provides free transportation to the majority of 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.

LaCima Charter School

Notes to Financial Statements
June 30, 2017 and 2016

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

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.

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 statement 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, 2017 and 2016.

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.

Fair Value Measurements

The School follows U.S. GAAP guidance on Fair Value Measurements which defines fair value and establishes a fair value hierarchy organized into three levels based upon the input assumptions used in pricing assets. Level 1 inputs have the highest reliability and are related to assets with unadjusted quoted prices in active markets. Level 2 inputs relate to assets with other than quoted prices in active markets which may include quoted prices for similar assets or liabilities or other inputs which can be corroborated by observable market data. Level 3 inputs are unobservable inputs and are used to the extent that observable inputs do not exist.

LaCima Charter School

Notes to Financial Statements
June 30, 2017 and 2016

2. Summary of Significant Accounting Policies (continued)

Investment Valuation

Investments are stated at fair value.

Investment Income Recognition

Purchases and sales of securities are recorded on a trade date basis. Interest income is recorded on the accrual basis and dividends are recorded on the ex-dividend date. Realized and unrealized gains and losses are included in the determination of change in net assets.

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, whereby such assets are expensed as incurred.

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

Software	3 years
Music supplies	3 years
Computers and equipment	5 years
Library books	5 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 the fair value. There were no asset impairments for the years ended June 30, 2017 and 2016.

Refundable Advances

The School records certain government operating revenue as refundable advances until related services are performed, at which time they are recognized as revenue.

LaCima Charter School

Notes to Financial Statements
June 30, 2017 and 2016

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

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, 2014.

Prior Year Summarized Comparative Financial Information

The financial statements include prior-year summarized comparative information in total but not by net asset class. 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 financial statements for the year ended June 30, 2016, 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 22, 2017.

LaCima Charter School

Notes to Financial Statements June 30, 2017 and 2016

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. Fair Value of Investments

The School's investments as of June 30, 2017 and 2016 consisted of fixed income bonds in the amounts of \$1,080,908 and \$1,075,870 categorized as Level 1 in the fair value hierarchy.

The composition of investment return as reported in the statement of activities for the years ended June 30, 2017 and 2016 are as follows:

	2016	2017
Interest and dividend income	\$ 232	\$ 222
Net unrealized gain	5,038	7,493
	<u>\$ 5,270</u>	<u>\$ 7,715</u>

5. Property and Equipment

Property and equipment consists of the following at June 30:

	2017	2016
Furniture and fixtures	\$ 182,497	\$ 191,015
Computers and equipment	417,672	598,333
Software	10,800	113,880
Library books	33,174	28,257
Music supplies	3,832	14,148
Leasehold improvements	417,934	370,496
	1,065,909	1,316,129
Accumulated depreciation and amortization	(552,909)	(764,418)
	<u>\$ 513,000</u>	<u>\$ 551,711</u>

During the year ended June 30, 2017, the School disposed of fully depreciated property and equipment totaling \$350,325.

6. Employee Benefit Plan

The School maintains a retirement plan qualified under Internal Revenue Code 403(b) for the benefit of its eligible employees. Under this plan, the School can elect to contribute an amount equal to at least 3% of the participant's annual compensation. In addition, the School can also elect to make a discretionary contribution to the employees who are eligible, not to exceed 5% of their annual compensation. Employer match for the years ended June 30, 2017 and 2016, amounted to \$61,993 and \$109,338, respectively.

LaCima Charter School

Notes to Financial Statements
June 30, 2017 and 2016

7. 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, 2017, approximately \$353,000 of cash was maintained with an institution in excess of FDIC limits.

8. 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, 2017 and 2016, the School received approximately 95% of 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.

9. Commitment

On July 14, 2016, the School signed a lease with Stuyvesant Street Realty LLC, for additional office space under a non-cancelable lease expiring August 31, 2019. Under the terms of the lease, the School paid a security deposit in the amount of \$13,500. The School moved into this new facility on September 21, 2016, and commenced paying rent.

Future minimum lease payments under this lease are as follows:

June 30, 2018	\$	55,350
2019		57,011
2020		<u>9,548</u>
	\$	<u>121,909</u>

10. Contingency

Certain grants and contracts may be subject to audit by the funding sources. Such audits might result in disallowances of costs submitted for reimbursements. 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.



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
La Cima 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 La Cima Charter School (the "School"), which comprise the statement of financial position as of June 30, 2017, 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 22, 2017.

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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School's financial statements are free 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*.

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 22, 2017