

McGladrey & Pullen

Certified Public Accountants

Bronx Charter School for Better Learning

Financial Statements

June 30, 2009

BRONX CHARTER SCHOOL FOR BETTER LEARNING

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June 30, 2009

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McGladrey & Pullen

Certified Public Accountants

Independent Auditor's Report

To the Board of Trustees
Bronx Charter School for Better Learning
Bronx, New York

We have audited the accompanying statement of financial position of Bronx Charter School for Better Learning (the "School") as of June 30, 2009, and the related statements of activities, functional expenses, and cash flows for the year 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 audit. The prior-year summarized comparative information has been derived from the School's 2008 financial statements and, in our report dated September 29, 2008, we expressed an unqualified opinion on those financial statements.

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 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 audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the School as of June 30, 2009, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report, dated September 17, 2009, 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, contract and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

McGladrey & Pullen, LLP

New York, New York
September 17, 2009

BRONX CHARTER SCHOOL FOR BETTER LEARNING

STATEMENT OF FINANCIAL POSITION

| June 30, | 2009 | 2008 |
|-----------------------------------------------------|--------------------|--------------------|
| ASSETS | | |
| Cash and Cash Equivalents | \$1,383,183 | \$ 968,306 |
| Restricted Cash | 27,162 | 26,884 |
| Grants, Contracts and Other Receivable | 60,805 | 24,326 |
| Prepaid Expenses | 13,461 | 40,088 |
| Property and Equipment, net | 271,292 | 124,997 |
| Total Assets | \$1,755,903 | \$1,184,601 |
| LIABILITIES AND NET ASSETS | | |
| Liabilities - accounts payable and accrued expenses | \$ 131,672 | \$ 146,077 |
| Total liabilities | 131,672 | 146,077 |
| Net Assets: | | |
| Unrestricted | 1,606,083 | 1,022,674 |
| Temporarily restricted | 18,148 | 15,850 |
| Total net assets | 1,624,231 | 1,038,524 |
| Total Liabilities and Net Assets | \$1,755,903 | \$1,184,601 |

See Notes to Financial Statements

BRONX CHARTER SCHOOL FOR BETTER LEARNING

STATEMENT OF ACTIVITIES

(with summarized comparative financial information for the year ended June 30, 2008)

| Year ended June 30, | 2009 | | 2008 | |
|-----------------------------------------------------------------------------------------|--------------|---------------------------|-------------|---------------------|
| | Unrestricted | Temporarily Restricted | Total | Summarized Total |
| Operating revenue: | | | | |
| State and local per pupil operating revenue | \$4,296,941 | | \$4,296,941 | \$3,148,249 |
| Government grants and contracts | 241,615 | | 241,615 | 189,556 |
| Total support and revenue | 4,538,556 | | 4,538,556 | 3,337,805 |
| Expenses: | | | | |
| Program services - regular education | 3,393,538 | | 3,393,538 | 2,531,177 |
| Management and general | 483,771 | | 483,771 | 481,841 |
| Total operating expenses | 3,877,309 | | 3,877,309 | 3,013,018 |
| Net revenue from school operations | 661,247 | | 661,247 | 324,787 |
| Contributions | 45,530 | \$12,000 | 57,530 | 93,384 |
| Other income | 38,852 | | 38,852 | 40,916 |
| Special events, net of expenses of \$12,489 for 2009 and \$24,334 for 2008 | 28,003 | | 28,003 | 62,614 |
| Fund-raising expenses | (199,925) | | (199,925) | (152,848) |
| Net assets released from restrictions - satisfaction of program/purpose restrictions | 9,702 | (9,702) | | |
| Change in net assets | 583,409 | 2,298 | 585,707 | 368,853 |
| Net assets at beginning of year | 1,022,674 | 15,850 | 1,038,524 | 669,671 |
| Net assets at end of year | \$1,606,083 | \$18,148 | \$1,624,231 | \$1,038,524 |

See Notes to Financial Statements

BRONX CHARTER SCHOOL FOR BETTER LEARNING

STATEMENT OF FUNCTIONAL EXPENSES

(with summarized comparative financial information for the year ended June 30, 2008)

| Year ended June 30, | 2009 | | | 2008 | |
|-----------------------------------------------------|-----------------------------------------------|------------------------------|------------------|--------------------|---------------------|
| | Program Services - Regular Education | Management and General | Fund- raising | Total | Summarized Total |
| Salaries | \$2,374,111 | \$206,314 | \$124,847 | \$2,705,272 | \$2,037,808 |
| Payroll taxes and employee benefits | 529,554 | 49,660 | 27,796 | 607,010 | 452,785 |
| Bookkeeping, financial consulting and auditing fees | 107,331 | 62,727 | 5,592 | 175,650 | 119,383 |
| Books and instructional supplies | 166,261 | | | 166,261 | 132,514 |
| Office supplies | 12,968 | 7,737 | 444 | 21,149 | 15,486 |
| Telephone and other utilities | 8,455 | 2,226 | 1,070 | 11,751 | 3,510 |
| Insurance | 18,695 | 12,201 | 2,023 | 32,919 | 26,644 |
| Staff development | 73,256 | 2,383 | | 75,639 | 148,802 |
| Printing and communication | 11,818 | 5,202 | 18,852 | 35,872 | 98,757 |
| Travel | 13,844 | 358 | 176 | 14,378 | 7,623 |
| Depreciation | | 79,531 | | 79,531 | 56,024 |
| Meetings and group parent education | 23,638 | 4,598 | 10,731 | 38,967 | 17,831 |
| Repair and maintenance | 16,046 | 10,891 | 837 | 27,774 | 19,044 |
| Other | 37,561 | 39,943 | 7,557 | 85,061 | 29,655 |
| Total expenses | \$3,393,538 | \$483,771 | \$199,925 | \$4,077,234 | \$3,165,866 |

See Notes to Financial Statements

BRONX CHARGER SCHOOL FOR BETTER LEARNING

STATEMENT OF CASH FLOWS

| Year ended June 30, | 2009 | 2008 |
|---------------------------------------------------------------------------------------------|--------------------|------------------|
| Cash flows from operating activities: | | |
| Change in net assets | \$ 585,707 | \$368,853 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | |
| Depreciation | 79,531 | 56,024 |
| Donated computer equipment | | (2,466) |
| Changes in operating assets and liabilities: | | |
| Increase in restricted cash | (278) | (975) |
| (Increase) decrease in grants, contracts and other receivable | (36,479) | 18,509 |
| Decrease in prepaid expenses | 26,627 | 8,942 |
| (Decrease) increase in accounts payable and accrued expenses | (14,405) | 40,436 |
| Net cash provided by operating activities | 640,703 | 489,323 |
| Cash used in investing activity - acquisition of property and equipment | (225,826) | (90,985) |
| Net increase in cash and cash equivalents | 414,877 | 398,338 |
| Cash and cash equivalents at beginning of year | 968,306 | 569,968 |
| Cash and cash equivalents at end of year | \$1,383,183 | \$968,306 |

See Notes to Financial Statements

BRONX CHARTER SCHOOL FOR BETTER LEARNING

NOTES TO FINANCIAL STATEMENTS June 30, 2009

**1. PRINCIPAL
BUSINESS
ACTIVITY AND
SUMMARY OF
SIGNIFICANT
ACCOUNTING
POLICIES:**

Bronx Charter School for Better Learning (the "School") is an educational corporation that commenced operating as a charter school in the borough of the Bronx, New York City in September 2003. On March 25, 2003, the Board of Regents of the University of the State of New York granted the School a provisional charter valid for a term of five years and renewable upon expiration. On January 15, 2008, the Board of Regents of the University of the State of New York School approved the renewal of the School's charter to provide instruction to students in kindergarten through fifth grade for a period of five years. The School is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code.

The School's mission is to provide its students with a solid foundation for academic success, through achievement that exceeds citywide averages and meets or exceeds New York State standards and national norms in all curriculum areas tested, especially in mathematics and language arts.

The financial statements of the School have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America.

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. Revenue from federal, state and local grants and contracts are recognized when qualifying expenditures are incurred. Cash received in excess of expenditures incurred is recognized as refundable advances.

The School reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Temporarily restricted contributions are recognized as unrestricted when the donor restrictions are met in the same accounting period. Conditional contributions, including cost reimbursement contracts, are recognized as revenue when the conditions on which they depend have been substantially met.

Contributed services that create or enhance nonfinancial assets, or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at fair value in the period received.

Cash and cash equivalents include money market accounts and certificates of deposit which are held as temporary investments. The School's cash and cash equivalents are maintained with three financial institutions, and balances at times exceed insurable limits. The School has not experienced any losses in such accounts.

BRONX CHARTER SCHOOL FOR BETTER LEARNING

NOTES TO FINANCIAL STATEMENTS June 30, 2009

Property and equipment is recorded at cost. Additions and improvements in excess of \$1,000 with an estimated useful life of more than one year are capitalized. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Property and equipment acquired with certain government contract funds are recorded as expenses pursuant to the terms of the contract.

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 assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates.

The statement of activities includes certain prior-year summarized comparative information in total but not by functional and net asset classification. In addition, the statement of functional expenses includes certain prior-year summarized comparative information in total but not by its functional classification. Such statements do not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the School's 2008 financial statements from which the summarized information was derived.

The School evaluates events occurring after the date of the financial statements to consider whether or not the impact of such events needs to be reflected or disclosed in the financial statements. Such evaluation is performed through the date the financial statements are issued, which was September 17, 2009 for these financial statements.

Effective July 1, 2008, the School adopted Statement of Financial Accounting Standards No. 157 ("Statement No. 157"), *Fair Value Measurements*. The adoption of Statement No. 157 had no effect on assets, net assets or change in net assets as of June 30, 2009 or for the year then ended. Statement No. 157 applies to all assets and liabilities that are being measured and reported on a fair value basis. Statement No. 157 requires new disclosure that establishes a framework for measuring fair value in GAAP, and expands disclosure about fair value measurements. This statement enables a reader of the financial statements to assess the inputs used to develop those measurements by establishing a hierarchy for ranking the quality and reliability of the information used to determine fair values. The statement requires that assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories:

- Level 1: Quoted market prices in active exchange markets for identical assets or liabilities.
- Level 2: Observable market based inputs or unobservable inputs that are corroborated by market data.
- Level 3: Unobservable inputs that are no corroborated by market data.

BRONX CHARTER SCHOOL FOR BETTER LEARNING

NOTES TO FINANCIAL STATEMENTS June 30, 2009

Financial instruments carried by the School and measured at fair value at June 30, 2009 consist of cash equivalents (certificates of deposit) amounting to \$986,980, and are classified as Level 2 in the fair value hierarchy.

In July 2006, the FASB issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109* ("FIN 48"). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB Statement No. 109, *Accounting for Income Taxes*. FIN 48 prescribes a comprehensive model for recognizing, measuring, presenting and disclosing in the financial statements tax positions taken or expected to be taken on a tax return, including positions that the organization is exempt from income taxes or not subject to income taxes on unrelated business income. If there are changes in net assets as a result of the application of FIN 48, these will be accounted for as an adjustment to the opening balance of net assets for the fiscal year of adoption. Additional disclosures about the amounts of such liabilities will be required also. The School presently recognizes income tax positions based on management's estimate of whether or not it is reasonably possible that a liability has been incurred for unrecognized income tax benefits by applying FASB Statement No. 5, *Accounting for Contingencies*. The School has elected to defer the application of FIN 48 in accordance with FSP FIN 48-3. This FSP defers the effective of FIN 48 for nonpublic enterprises to annual financial statements for fiscal years beginning after December 15, 2008. The School will be required to adopt FIN 48 in its 2010 annual financial statements. Management is currently assessing the impact of FIN 48 on the School's financial position, and believes that the effects will not have a material impact to the School.

2. RESTRICTED CASH:

The School maintains an escrow account, pursuant to its charter agreement, to pay off expenses in the event of dissolution of the School.

3. AGREEMENT FOR SCHOOL FACILITY:

The School has entered into a "Facility Shared Use Agreement" (the "Agreement") with the New York City Department of Education for dedicated and shared space at P.S. 111 Annex, a New York City Public School located at 3740 Baychester Avenue, Bronx, New York 10466. The Agreement commenced on July 1, 2005 and will terminate on June 30, 2010, or the termination of the School's charter, whichever is earlier. Pursuant to the terms of the Agreement, the School shall pay \$1 per annum for the use of the shared facility during regular opening hours. The School shall be responsible for any overtime-related costs for services provided beyond regular opening hours.

BRONX CHARTER SCHOOL FOR BETTER LEARNING

NOTES TO FINANCIAL STATEMENTS June 30, 2009

- 4. PROPERTY AND EQUIPMENT, NET:** Property and equipment, at cost, consists of:

| June 30, | 2009 | 2008 | Estimated Useful Life |
|-------------------------------|-----------|-----------|-----------------------|
| Furniture and fixtures | \$319,415 | \$187,917 | 5 years |
| Computer equipment | 242,601 | 148,273 | 3 years |
| Less accumulated depreciation | 562,016 | 336,190 | |
| | 290,724 | 211,193 | |
| | \$271,292 | \$124,997 | |

- 5. GRANTS, CONTRACTS AND OTHER RECEIVABLE:** Grants, contracts and other receivable are due in full within one year. No allowance for uncollectible receivable is deemed necessary by the School.

- 6. TEMPORARILY RESTRICTED NET ASSETS:** Temporarily restricted net assets are available for specialized services or purposes designated by the donors. Temporarily restricted net assets released from restrictions (scholarships) during the year ended June 30, 2009 amounted to \$9,702. At June 30, 2009 and 2008, temporarily restricted net assets are available for the following:

| June 30, | 2009 | 2008 |
|-----------------------------------|----------|----------|
| Scholarship fund | \$13,298 | \$11,000 |
| Other purposes specified by donor | 4,850 | 4,850 |
| | \$18,148 | \$15,850 |

- 7. CONTINGENCY:** Certain grants may be subject to audit by the funding sources. Such audits may result in disallowances of costs submitted for reimbursement by the School. 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.

- 8. PENSION PLAN:** The School sponsors a 403(b) retirement plan (the "Plan") for its employees. The Plan was established in May 2008 and all employees of the School are eligible to participate. Contributions made to the Plan are credited to each individual participant's account maintained under a group annuity contract issued by Metropolitan Life Insurance Company. The School matches 100% of the employee's contributions up to \$2,400 a year. During the years ended June 30, 2009 and 2008, the School contributed approximately \$93,000 and \$63,000, respectively, to the Plan.

McGladrey & Pullen

Certified Public Accountants

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

To the Board of Trustees
Bronx Charter School for Better Learning
Bronx, New York

We have audited the financial statements of Bronx Charter School for Better Learning (the "School") as of and for the year ended June 30, 2009, and have issued our report thereon dated September 17, 2009. 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 *control deficiency* 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 misstatements on a timely basis. A *significant deficiency* is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be 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, contract 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*.

This report is intended solely for the information and use of the audit committee, management, the Charter Schools Institute of the State of New York, and the State Education Department of the University of the State of New York, and is not intended to be and should not be used by anyone other than these specified parties.

McGladrey & Pullen, LLP

New York, New York
September 17, 2009