

**McGladrey & Pullen**

Certified Public Accountants

**Bronx Charter School for Excellence and Affiliate**

Combined Financial Report

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 Excellence  
Bronx, New York

We have audited the accompanying combined statement of financial position of Bronx Charter School for Excellence and Affiliate (the "Organization") as of June 30, 2009, and the related combined statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior-year summarized comparative information has been derived from the Organization's 2008 financial statements and in our report, dated October 16, 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 combined financial statements referred to above present fairly, in all material respects, the financial position of Bronx Charter School for Excellence and Affiliate as of June 30, 2009, and their changes in net assets and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was made for the purpose of forming an opinion on the basic combined financial statements taken as a whole. The combining information is presented for purposes of additional analysis of the basic combined financial statements rather than to present the financial position, changes in net assets, and cash flows of the individual entities. The combining information has been subjected to the auditing procedures applied in the audit of the basic combined financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic combined financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report, dated October 27, 2009, on our consideration of the Organization's internal control over financial reporting and our tests of their compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and on 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  
October 27, 2009

**Bronx Charter School for Excellence and Affiliate**

**Combined Statements of Financial Position  
June 30, 2009 and 2008**

	2009	2008
<b>ASSETS</b>		
Cash and Cash Equivalents (Note 1)	\$ 814,165	\$ 382,349
Contributions and Other Receivables (Notes 1 and 3)	309,738	59,204
Prepaid Expenses and Other Assets	126,311	108,412
Deferred Leasing Commissions (Note 1)	364,262	378,272
Property and Equipment, net (Notes 1 and 2)	1,901,277	1,629,799
Deposit (Note 5)	1,000,000	1,000,000
<b>Total assets</b>	<b>\$ 4,515,753</b>	<b>\$ 3,558,036</b>
<b>LIABILITIES AND NET ASSETS</b>		
Liabilities:		
Accounts payable and accrued expenses	\$ 380,272	\$ 323,277
Notes payable (Note 4)	179,365	350,000
Due to DOE	-	19,556
Deferred rent (Note 5)	2,109,604	1,582,203
<b>Total liabilities</b>	<b>2,669,241</b>	<b>2,275,036</b>
Commitments and Contingency (Notes 5 and 9)		
Net Assets:		
Unrestricted (Note 1)	1,646,512	1,266,000
Temporarily restricted (Notes 1 and 8)	200,000	17,000
<b>Total net assets</b>	<b>1,846,512</b>	<b>1,283,000</b>
<b>Total liabilities and net assets</b>	<b>\$ 4,515,753</b>	<b>\$ 3,558,036</b>

See Notes to Combined Financial Statements.

**Bronx Charter School for Excellence and Affiliate**

**Combined Statements of Activities**

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

Years Ended June 30, 2009 and 2008

	2009			2008
	Unrestricted	Temporarily Restricted	Total	Summarized Total
<b>Operating Revenue:</b>				
State and local per pupil operating revenue (Note 1)	\$ 3,986,189	\$ -	\$ 3,986,189	\$ 2,824,229
Government grants and contracts (Note 1)	163,019	-	163,019	163,207
<b>Total operating revenue</b>	<b>4,149,208</b>	<b>-</b>	<b>4,149,208</b>	<b>2,987,436</b>
<b>Expenses:</b>				
Program services - school operations	3,642,143	-	3,642,143	3,066,663
General and administrative	431,749	-	431,749	486,911
<b>Total operating expenses (Notes 5 and 6)</b>	<b>4,073,892</b>	<b>-</b>	<b>4,073,892</b>	<b>3,553,574</b>
<b>Surplus (deficit) from School operations</b>	<b>75,316</b>	<b>-</b>	<b>75,316</b>	<b>(566,138)</b>
<b>Support and Other Revenue:</b>				
Contributions (Note 1):				
Foundations	271,454	200,000	471,454	194,000
Corporations	-	-	-	47,000
Individuals	48,006	-	48,006	59,493
Donated goods	22,219	-	22,219	22,613
Other contributions and grants (inclusive of receipts amounting to \$47,749 and \$146,654, respectively, from special event)	50,029	-	50,029	154,750
Interest income	4,693	-	4,693	4,266
Miscellaneous income	17,074	-	17,074	13,447
Net assets released from satisfaction of purpose and time restrictions (Note 8)	17,000	(17,000)	-	-
Fund-raising expenses (inclusive of direct costs amounting to \$5,214 and \$10,850, respectively, from special event)	(125,279)	-	(125,279)	(130,905)
<b>Total support and other revenue</b>	<b>305,196</b>	<b>183,000</b>	<b>488,196</b>	<b>364,664</b>
<b>Change in net assets</b>	<b>380,512</b>	<b>183,000</b>	<b>563,512</b>	<b>(201,474)</b>
<b>Net Assets:</b>				
Beginning	1,266,000	17,000	1,283,000	1,484,474
Ending	\$ 1,646,512	\$ 200,000	\$ 1,846,512	\$ 1,283,000

See Notes to Combined Financial Statements.

**Bronx Charter School for Excellence and Affiliate**

**Combined Statements of Functional Expenses**

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

Years Ended June 30, 2009 and 2008

	2009			2008	
	<b>Program Services - School Operations</b>	<b>General and Administrative</b>	<b>Fund- raising</b>	<b>Total</b>	Summarized Total
Personnel expenses:					
Payroll	\$ 1,810,497	\$ 146,182	\$ 66,754	<b>\$ 2,023,433</b>	\$ 1,583,129
Payroll taxes and benefits	371,267	37,237	8,257	<b>416,761</b>	339,732
Rent (Note 5)	812,161	63,168	27,072	<b>902,401</b>	902,401
Academic programs	148,788	-	-	<b>148,788</b>	197,140
Development studies	-	61,634	-	<b>61,634</b>	-
Facility maintenance and security	210,081	15,858	6,931	<b>232,870</b>	214,543
Utilities	41,036	3,023	1,296	<b>45,355</b>	45,986
Consultants and substitute teachers	17,376	190	-	<b>17,566</b>	24,664
Loan interest	-	13,625	-	<b>13,625</b>	30,019
Professional fees	53,296	47,731	2,844	<b>103,871</b>	118,103
Depreciation and amortization	93,598	21,290	3,120	<b>118,008</b>	96,837
Insurance	26,864	5,987	895	<b>33,746</b>	28,291
Office and other	49,387	15,824	2,486	<b>67,697</b>	82,158
Telephone and Internet	7,792	-	410	<b>8,202</b>	10,626
Fund-raising expenses	-	-	5,214	<b>5,214</b>	10,850
	<b><u>\$ 3,642,143</u></b>	<b><u>\$ 431,749</u></b>	<b><u>\$ 125,279</u></b>	<b><u>\$ 4,199,171</u></b>	<b><u>\$ 3,684,479</u></b>

See Notes to Combined Financial Statements.

**Bronx Charter School for Excellence and Affiliate**

**Combined Statements of Cash Flows  
Years Ended June 30, 2009 and 2008**

	2009	2008
<b>Cash Flows From Operating Activities:</b>		
Change in net assets	\$ 563,512	\$ (201,474)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	118,008	96,837
Donated assets	-	(8,600)
Deferred rent	527,401	527,401
Changes in operating assets and liabilities:		
(Increase) decrease in contributions and other receivables	(250,534)	48,155
Increase in prepaid expenses and other assets	(17,899)	(12,864)
Increase in accounts payable and accrued expenses	56,995	91,233
(Decrease) increase in due to DOE	(19,556)	19,556
	<u>977,927</u>	<u>560,244</u>
<b>Net cash provided by operating activities</b>		
<b>Cash Flows From Investing Activities:</b>		
Payments made on leasehold improvements	(336,702)	(101,594)
Purchases of property and equipment	(38,774)	(37,343)
	<u>(375,476)</u>	<u>(138,937)</u>
<b>Cash used in investing activities</b>		
Cash Used In Financing Activity - principal payments on notes payable	(170,635)	(273,443)
	<u>(170,635)</u>	<u>(273,443)</u>
<b>Net increase in cash and cash equivalents</b>		
	431,816	147,864
<b>Cash and Cash Equivalents:</b>		
Beginning	382,349	234,485
	<u>382,349</u>	<u>234,485</u>
Ending	\$ 814,165	\$ 382,349
	<u>\$ 814,165</u>	<u>\$ 382,349</u>
<b>Supplemental Disclosure of Cash Flow information:</b>		
Cash paid during the year for interest	\$ 13,625	\$ 30,019
	<u>\$ 13,625</u>	<u>\$ 30,019</u>

See Notes to Combined Financial Statements.

## Bronx Charter School for Excellence and Affiliate

### Notes to Combined Financial Statements

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#### Note 1. Principal Business Activity and Summary of Significant Accounting Policies

Nature of Operations: The Bronx Charter School for Excellence (the "School") is an educational corporation that operates a charter school in the borough of the Bronx, New York. The School was granted a provisional charter on April 29, 2003 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. In March 2009, the School was awarded a full-term, five-year charter renewal to March 2014. The School is exempt from federal income taxes under section 501(c)(3) of the Internal Revenue Code (the "Code"). The School was established to prepare young people from New York City to compete for admission to, and succeed in, top public, private and parochial schools by cultivating their intellectual, artistic, social, emotional and ethical development. The School offers a challenging and rigorous academic curriculum which, at the earliest of grades, has an eye towards college preparation.

In fiscal year 2009, the School operated classes for students in kindergarten and grades 1 through 5.

The Friends of Bronx Charter School for Excellence, Inc. (the "Affiliate" or "Friends") was organized under the laws of the State of New York on July 9, 2001, as a not-for-profit corporation under subparagraph (a)(5) of Section 102 of the Not-For-Profit Corporation Law. Friends is exempt from federal income taxes under Section 501(c)(3) of the Code. Friends is a not-for-profit organization with certain common trustees as the School. Friends was established to provide technical and financial assistance in the improvement of educational opportunities for school-aged children in the Parkchester area of the Bronx, New York. Prior to fiscal 2007, Friends solely provided financial assistance to the School in connection with funding the option premium deposit to the landlord and entering into a lease agreement on behalf of the School for a new building facility. From fiscal 2007 through fiscal 2009, Friends was making new efforts to raise additional funds to support the School and continue to repay outstanding loan balances taken out to fund the option premium deposit.

Principal of Combination: The School and Friends are under common management and share many of the same trustees as well as a common goal of improving the educational opportunities for school-aged children. Accordingly, the accompanying combined financial statements include the accounts of the School and Friends (collectively referred to as the "Organization"). All intercompany accounts and transactions between these entities have been eliminated.

Basis of Accounting: The combined financial statements of the Organization have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. Accordingly, net assets are classified as unrestricted, temporarily restricted or permanently restricted based on the designation of the donors.

The combined statements of activities and functional expenses include certain prior-year summarized comparative information in total but not by net asset class or functional classification. Such information does 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 Organization's combined financial statements for the year ended June 30, 2008 from which the summarized information was derived.

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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

## Bronx Charter School for Excellence and Affiliate

### Notes to Combined Financial Statements

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#### Note 1. Principal Business Activity and Summary of Significant Accounting Policies (Continued)

Cash and Cash Equivalents: The Organization maintains cash in bank deposit accounts which, at times, may exceed federally insured limits. The Organization has not experienced any losses in such accounts.

The Organization considers all highly liquid instruments purchased with a maturity of three months or less to be cash equivalents. Cash equivalents consist of money market accounts.

Deferring Leasing Commissions: A leasing consultant assisted the Organization with locating a new facility for the School's instructional and office space and negotiating the terms of the triple net lease agreement. Leasing commissions amounting to \$420,302 for these services rendered were provided at no charge during the year ended June 30, 2005. The Organization has capitalized these commissions and reflected them as deferred leasing commissions in the accompanying combined statements of financial position. These deferred costs are amortized on the straight-line basis over the life of the lease.

Property and Equipment: Property and equipment is recorded at cost. The Organization capitalizes all purchases of fixed assets in excess of \$1,000. Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets. Leasehold improvements are amortized over the shorter of the estimated useful life of the asset or the remaining term of the related lease. Property and equipment acquired with certain government contract funds are recorded as expenses when the grantor retains title.

Operating Revenue: Revenue from the federal, 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 state funds are recorded by the School when expenditures are incurred and billable. Cash received in excess of revenue recognized is recorded as refundable advances from state and local government grants.

Revenue from other government grants to which the School is entitled is recognized mostly on student enrollment. Some grants are provided for specific educational endeavors and the building renovation project, which are not based on student enrollment and are recorded when related expenditures are incurred by the School.

Contributions and Contributed Services: The New York City Department of Education provides transportation and the federal government provides funding for free and reduced-cost breakfasts, lunches and snacks directly to a majority of the School's students. Such costs are not included in these financial statements.

Contributions are recognized as revenue in the year the pledge promise is received and documented. Contributions and unconditional promises to give are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support, which increases those net asset classes. When the specified purpose of donor-restricted contributions is met, the net asset is released from restriction and transferred to unrestricted net assets. Contributions of assets other than cash are recorded at their estimated fair value.

Contributed services are recorded at their fair value when such services are rendered. Contributed services are recognized as contributions if the services: (a) create or enhance nonfinancial assets, or (b) require specialized skills, are performed by people with those skills and would otherwise be purchased by the Organization.

## Bronx Charter School for Excellence and Affiliate

### Notes to Combined Financial Statements

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#### Note 1. Principal Business Activity and Summary of Significant Accounting Policies (Continued)

A number of volunteers have made a contribution of their time to the Organization to develop its academic and other programs and to serve on both entities' boards of trustees. The value of this contributed time is not reflected in these combined financial statements since it does not meet the criteria for recognition.

Fair Value Implementation: Effective July 1, 2008, the Organization 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 not corroborated by market data.

Financial instruments carried by the School and measured at fair value at June 30, 2009 consist of cash equivalents (money market fund) amounting to \$26,513, and are classified as Level 1 in the fair value hierarchy.

Recently Issued Accounting Pronouncements: The Financial Accounting Standards Board (the "FASB") has issued FASB 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 recognition threshold and measurement standard for the financial statement recognition and measurement of an income tax position 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. In addition, FIN 48 provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition.

The Organization presently discloses or recognizes income tax positions based on management's estimate of whether it is reasonably possible or probable, respectively, that a liability has been incurred for unrecognized income tax benefits by applying FASB Statement No. 5, *Accounting for Contingencies*.

The Organization has elected to defer the application of FIN 48 in accordance with FASB Staff Position ("FSP") FIN 48-3. This FSP defers the effective date of FIN 48 for certain nonpublic enterprises included within its scope to the annual financial statements for fiscal years beginning after December 15, 2008. The Organization will be required to adopt FIN 48 in its June 30, 2010 annual financial statements. The provisions of FIN 48 are to be applied to all tax positions upon initial application of this standard. Only tax positions that meet the more-likely-than-not recognition threshold at the effective date may be recognized or continue to be recognized upon adoption.

The cumulative effect, if any, of applying the provisions of FIN 48 will be reported as an adjustment to the opening balance of net assets for the fiscal year of adoption. Management has not assessed the impact of FIN 48 on its financial position, results of operations and change in net assets.

## Bronx Charter School for Excellence and Affiliate

### Notes to Combined Financial Statements

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#### Note 1. Principal Business Activity and Summary of Significant Accounting Policies (Continued)

Subsequent Events: The Organization 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 available for issuance, which was October 27, 2009 for these financial statements.

#### Note 2. Property and Equipment, Net

Property and equipment, net, at cost or fair market value at date of donation, consists of the following at June 30, 2009 and 2008, respectively:

	<u>2009</u>	<u>2008</u>	<u>Estimated Useful Life</u>
Computer and other equipment	\$ 122,436	\$ 107,253	5 years
Furniture and fixtures	84,211	60,620	5 years
			Shorter of lease
Leasehold improvements	2,010,320	1,565,809	term or 30 years
Construction-in-progress	-	107,809	
	<u>2,216,967</u>	<u>1,841,491</u>	
Less accumulated depreciation and amortization	<u>(315,690)</u>	<u>(211,692)</u>	
	<u>\$ 1,901,277</u>	<u>\$ 1,629,799</u>	

On June 27, 2008, the School entered into an agreement with a contractor to perform interior and exterior renovations to the School's building facilities to provide the space needed for two new fifth grade student classes. The total cost of this project amounted to approximately \$445,000, which is included in leasehold improvements in fiscal 2009 upon being placed into service.

#### Note 3. Contributions and Other Receivables

As of June 30, 2009 and 2008, contributions and other receivables amounted to \$309,738 and \$59,204, respectively. Contributions and other receivables include receivables from government contracts and unconditional promises to give, which are all due as follows:

	<u>2009</u>	<u>2008</u>
Less than one year	\$ 209,738	\$ 59,204
One to five years	100,000	-
	<u>\$ 309,738</u>	<u>\$ 59,204</u>

## Bronx Charter School for Excellence and Affiliate

### Notes to Combined Financial Statements

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#### Note 4. Notes Payable

Notes payable amounted to \$179,365 and \$350,000 as of June 30, 2009 and 2008, respectively. The note payable bears interest at an annual rate of 5.0% and is payable in 24 monthly principal and interest installments of \$15,355 through June 30, 2010. Friends has the option to prepay any or all of the principal at any time before the maturity date with no penalty, otherwise, the principal is due at the maturity date. Interest expense amounted to \$13,625 and \$28,125 for the years ended June 30, 2009 and 2008, respectively.

#### Note 5. Commitments

Friends has entered into a 30-year noncancelable operating lease agreement with an unrelated third party for a facility in the Bronx, New York. On July 1, 2005, Friends entered into a sublease agreement with the School, whereby the School assumes all obligations pertaining to Friends' lease agreement. As an inducement for Friends to enter into this lease agreement, the School has funded \$1,547,149 in leasehold improvements made to convert the leased space for use as an educational facility.

Minimum future rental payments under this lease and sublease are summarized as follows:

#### Year ending June 30,

2010	\$ 375,000
2011	506,250
2012	506,250
2013	506,250
2014	506,250
Thereafter	<u>23,172,035</u>
	<u>\$ 25,572,035</u>

The lease provides for rent escalations and the Organization is responsible for real estate taxes and other operating expenses.

Deferred rent consists of the excess of the rental expenses on a straight-line basis over the payment required by the lease. For the years ended June 30, 2009 and 2008, rent expense amounted to \$902,401 each year, which includes noncash deferred rent adjustments of \$527,401 for each of these years.

Friends has made a nonrefundable \$1,000,000 option premium deposit to the landlord, entitling Friends to acquire the land and building pertaining to this leased facility for a fixed purchase price of \$8,000,000. The option has to be exercised on or before July 1, 2010.

#### Note 6. Employee Benefit Plan

The School maintains a deferred compensation plan qualified under Section 403(b) of the Code. The School matches up to 5% of each employee's annual compensation not to exceed the employee's annual salary deferral amount. The School may also elect to make additional contributions to the plan on a discretionary basis. For the years ended June 30, 2009 and 2008, employer matching contributions in connection with this plan amounted to approximately \$60,000 and \$42,000, respectively, net of forfeitures.

## Bronx Charter School for Excellence and Affiliate

### Notes to Combined Financial Statements

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#### Note 7. Operating Expenses

Operating expenses are presented in the combined statements of functional expenses classified according to the significant program activity related to the purpose for which the School exists or supporting service.

The significant activities are:

School Operations: Represents work (time and materials) that is specifically related to or necessary for the programming aspects of the School. If the activities and related costs directly affect students or parents, then it falls under this program.

General and Administrative: Represents work (time and materials) that is specifically related to running the non-programmatic/back-end operational functions of the School and Friends including but not limited to human resources, finance, technology and payroll.

Fund-raising: Represents work (time and materials) associated with the School's and Friends' fund-raising program including but not limited to annual mailings, donor meetings and events.

#### Note 8. Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purpose or periods as of June 30:

	<u>2009</u>	<u>2008</u>
Building and playground renovations <sup>(a)</sup>	\$ -	\$ 15,000
Dance program	-	2,000
Time-restricted for future period	<u>200,000</u>	-
	<u>\$ 200,000</u>	<u>\$ 17,000</u>

The release of temporarily restricted net assets consists of the following restrictions during the year ended June 30, 2009:

Building and playground renovations <sup>(a)</sup>	\$ 15,000
Dance program	<u>2,000</u>
	<u>\$ 17,000</u>

(a) During the year ended June 30, 2008, the Organization received a temporarily restricted grant in the amount of \$20,000 for building and playground renovations.

#### Note 9. Contingency

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

# 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 Excellence  
Bronx, New York

We have audited the combined financial statements of Bronx Charter School for Excellence and Affiliate (the "Organization") as of and for the year ended June 30, 2009, and have issued our report thereon dated October 27, 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 Organization's internal control over financial reporting in order to determine 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 Organization's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

A *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 accounting principles generally accepted in the United States of America such that there is more than a remote likelihood that a material 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 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 Organization's internal control.

Our consideration of 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 Organization'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 audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to the management of the Organization in a separate letter dated October 27, 2009.

This report is intended solely for the information and use of the finance committee, board of trustees, management, the New York State Education Department and the Charter Schools Institute of the State University 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  
October 27, 2009

**Bronx Charter School for Excellence and Affiliate**

**Supplementary Information**

**Combining Statements of Financial Position**  
 (with summarized comparative financial information as of June 30, 2008)  
 June 30, 2009 and 2008

	2009			2008	
	Bronx Charter School for Excellence	Friends of Bronx Charter School for Excellence, Inc.	Eliminations	Total	Summarized Total
<b>ASSETS</b>					
Cash and Cash Equivalents (Note 1)	\$ 764,383	\$ 49,782	\$ -	\$ 814,165	\$ 382,349
Contributions and Other Receivables (Notes 1 and 3)	275,618	34,120	-	309,738	59,204
Due From Affiliate	58,634	-	(58,634)	-	-
Prepaid Expenses and Other Assets	125,023	1,288	-	126,311	108,412
Deferred Leasing Commissions (Note 1)	-	364,262	-	364,262	378,272
Property and Equipment, net (Notes 1 and 2)	1,898,704	2,573	-	1,901,277	1,629,799
Deposit (Note 5)	-	1,000,000	-	1,000,000	1,000,000
<b>Total assets</b>	<b>\$ 3,122,362</b>	<b>\$ 1,452,025</b>	<b>\$ (58,634)</b>	<b>\$ 4,515,753</b>	<b>\$ 3,558,036</b>
<b>LIABILITIES AND NET ASSETS</b>					
Liabilities:					
Accounts payable and accrued expenses	\$ 378,772	\$ 1,500	\$ -	\$ 380,272	\$ 323,277
Notes payable (Note 4)	-	179,365	-	179,365	350,000
Due to DOE	-	-	-	-	19,556
Deferred rent (Note 5)	2,109,604	-	-	2,109,604	1,582,203
Due to affiliate	-	58,634	(58,634)	-	-
<b>Total liabilities</b>	<b>2,488,376</b>	<b>239,499</b>	<b>(58,634)</b>	<b>2,669,241</b>	<b>2,275,036</b>
Commitments and Contingency (Notes 5 and 9)					
Net Assets:					
Unrestricted (Note 1)	433,986	1,212,526	-	1,646,512	1,266,000
Temporarily restricted (Notes 1 and 8)	200,000	-	-	200,000	17,000
<b>Total net assets</b>	<b>633,986</b>	<b>1,212,526</b>	<b>-</b>	<b>1,846,512</b>	<b>1,283,000</b>
<b>Total liabilities and net assets</b>	<b>\$ 3,122,362</b>	<b>\$ 1,452,025</b>	<b>\$ (58,634)</b>	<b>\$ 4,515,753</b>	<b>\$ 3,558,036</b>

**Bronx Charter School for Excellence and Affiliate**

**Supplementary Information**

**Combining Statements of Activities**

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

Years Ended June 30, 2009 and 2008

	2009		2008	
	Bronx Charter School for Excellence	Friends of Bronx Charter School for Excellence, Inc.	Total	Summarized Total
<b>Operating Revenue:</b>				
State and local per pupil operating revenue (Note 1)	\$ 3,986,189	\$ -	\$ 3,986,189	\$ 2,824,229
Government grants and contracts (Note 1)	163,019	-	163,019	163,207
<b>Total operating revenue</b>	<b>4,149,208</b>	<b>-</b>	<b>4,149,208</b>	<b>2,987,436</b>
<b>Expenses:</b>				
Program services - School operations	3,642,143	-	3,642,143	3,066,663
General and administrative	401,020	30,729	431,749	486,911
<b>Total operating expenses (Notes 5 and 6)</b>	<b>4,043,163</b>	<b>30,729</b>	<b>4,073,892</b>	<b>3,553,574</b>
<b>Deficit from School operations</b>	<b>106,045</b>	<b>(30,729)</b>	<b>75,316</b>	<b>(566,138)</b>
<b>Support and Other Revenue:</b>				
Contributions (Note 1):				
Foundations	321,454	150,000	471,454	194,000
Corporations	-	-	-	47,000
Individuals	10,009	37,997	48,006	59,493
Donated goods	22,219	-	22,219	22,613
Other contributions and grants (inclusive of receipts amounting to \$47,749 and \$146,564, respectively, from special event)	5,180	44,849	50,029	154,750
Interest income	4,420	273	4,693	4,266
Miscellaneous income	14,020	3,054	17,074	13,447
Fund-raising expenses (inclusive of direct costs amounting to \$5,214 and \$10,850, respectively, from special event)	(105,841)	(19,438)	(125,279)	(130,905)
<b>Total support and other revenue</b>	<b>271,461</b>	<b>216,735</b>	<b>488,196</b>	<b>364,664</b>
<b>Change in net assets</b>	<b>377,506</b>	<b>186,006</b>	<b>563,512</b>	<b>(201,474)</b>
<b>Net Assets:</b>				
Beginning <sup>(a)</sup>	256,480	1,026,520	1,283,000	1,484,474
Ending	\$ 633,986	\$ 1,212,526	\$ 1,846,512	\$ 1,283,000

(a) The Organization determined the allocation of expenses from the School to Friends for services rendered by the School's employees and other direct costs were overstated based on the limited amount of work required of the School's employees and therefore the opening net assets has been restated to reallocate \$34,114 from Friends to the School. This restatement has no impact on the total combined net assets as of July 1, 2008.

**Bronx Charter School for Excellence and Affiliate**

**Supplementary Information**

**Combining Statements of Functional Expenses - Bronx Charter School for Excellence  
(with summarized comparative financial information for the year ended June 30, 2008)  
Years Ended June 30, 2009 and 2008**

	2009			2008	
	Program Services - School Operations	General and Administrative	Fund- raising	Total	Summarized Total <sup>(1)</sup>
Personnel expenses:					
Payroll	\$ 1,810,497	\$ 146,182	\$ 58,418	<b>\$ 2,015,097</b>	\$ 1,576,998
Payroll taxes and benefits	371,267	37,237	6,540	<b>415,044</b>	338,416
Rent (Note 5)	812,161	63,168	27,072	<b>902,401</b>	902,401
Academic programs	148,788	-	-	<b>148,788</b>	197,140
Development studies	-	61,634	-	<b>61,634</b>	-
Facility maintenance and security	210,081	15,858	6,931	<b>232,870</b>	214,543
Utilities	41,036	3,023	1,296	<b>45,355</b>	45,986
Consultants and substitute teachers	17,376	190	-	<b>17,566</b>	24,664
Professional fees	53,296	46,324	359	<b>99,979</b>	93,674
Depreciation and amortization	93,598	7,280	3,120	<b>103,998</b>	82,827
Insurance	26,864	4,300	895	<b>32,059</b>	26,578
Office and other	49,387	15,824	1,210	<b>66,421</b>	80,171
Telephone and Internet	7,792	-	-	<b>7,792</b>	10,091
	<u>\$ 3,642,143</u>	<u>\$ 401,020</u>	<u>\$ 105,841</u>	<u><b>\$ 4,149,004</b></u>	<u>\$ 3,593,489</u>

<sup>(1)</sup> See (a) on page 16 regarding restatement of payroll and payroll taxes and benefits allocated from the School to Friends

**Bronx Charter School for Excellence and Affiliate**

**Supplementary Information**

**Combining Statements of Functional Expenses - Friends of Bronx Charter School for Excellence, Inc.  
(with summarized comparative financial information for the year ended June 30, 2008)  
Years Ended June 30, 2009 and 2008**

	2009			2008	
	<b>Program Services - Support to Bronx Charter School for Excellence</b>	<b>General and Administrative</b>	<b>Fund- raising</b>	<b>Total</b>	<b>Summarized Total <sup>(1)</sup></b>
Personnel Expenses:					
Payroll	\$ -	\$ -	\$ 8,336	\$ 8,336	\$ 6,131
Payroll taxes and benefits	-	-	1,717	1,717	1,316
Loan interest	-	13,625	-	13,625	30,019
Professional fees	-	1,407	2,485	3,892	24,429
Depreciation and amortization	-	14,010	-	14,010	14,010
Insurance	-	1,687	-	1,687	1,713
Office and other	-	-	1,276	1,276	1,987
Telephone and Internet	-	-	410	410	535
Fund-raising expenses	-	-	5,214	5,214	10,850
	<u>\$ -</u>	<u>\$ 30,729</u>	<u>\$ 19,438</u>	<u>\$ 50,167</u>	<u>\$ 90,990</u>

<sup>(1)</sup> See (a) on page 16 regarding restatement of payroll and payroll taxes and benefits allocated from the School to Friends