

**Bronx Charter School for
Better Learning**

Financial Report

June 30, 2010

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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, 2010, 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 2009 financial statements and, in our report dated September 17, 2009, 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, 2010, 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 24, 2010, 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 24, 2010

Bronx Charter School for Better Learning

**Statements of Financial Position
June 30, 2010 and 2009**

	<u>2010</u>	<u>2009</u>
ASSETS		
Cash and Cash Equivalents	\$ 1,570,737	\$ 1,383,183
Restricted Cash	27,220	27,162
Grants, Contracts and Other Receivable	112,424	60,805
Prepaid Expenses	22,062	13,461
Property and Equipment, net	<u>228,540</u>	<u>271,292</u>
Total assets	<u><u>\$ 1,960,983</u></u>	<u><u>\$ 1,755,903</u></u>
LIABILITIES AND NET ASSETS		
Liabilities - accounts payable and accrued expenses	<u>\$ 118,254</u>	<u>\$ 131,672</u>
Total liabilities	<u>118,254</u>	<u>131,672</u>
Net Assets:		
Unrestricted	1,789,018	1,606,083
Temporarily restricted	<u>53,711</u>	<u>18,148</u>
Total net assets	<u>1,842,729</u>	<u>1,624,231</u>
Total liabilities and net assets	<u><u>\$ 1,960,983</u></u>	<u><u>\$ 1,755,903</u></u>

See Notes to Financial Statements.

Bronx Charter School for Better Learning

Statements of Activities

(with summarized comparative financial information for the year ended June 30, 2009)

Years Ended June 30, 2010 and 2009

	2010		2009	
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>	<u>Summarized Total</u>
Operating Support and Revenue:				
State and local per pupil operating revenue	\$ 4,399,330	\$ -	\$ 4,399,330	\$ 4,296,941
Government grants and contracts	<u>342,350</u>	<u>-</u>	<u>342,350</u>	<u>241,615</u>
Total support and revenue	<u>4,741,680</u>	<u>-</u>	<u>4,741,680</u>	<u>4,538,556</u>
Expenses:				
Program services - regular education	3,753,910	-	3,753,910	3,393,538
Management and general	<u>660,990</u>	<u>-</u>	<u>660,990</u>	<u>483,771</u>
Total operating expenses	<u>4,414,900</u>	<u>-</u>	<u>4,414,900</u>	<u>3,877,309</u>
Net revenue from school operations	326,780	-	326,780	661,247
Contributions	30,405	48,153	78,558	57,530
Other Income	21,697	-	21,697	38,852
Special Events, net of expenses of \$18,438 for 2010 and \$12,489 for 2009	19,348	-	19,348	28,003
Fund-Raising Expenses	(227,885)	-	(227,885)	(199,925)
Net Assets Released From Restrictions - satisfaction of program/purpose restrictions	<u>12,590</u>	<u>(12,590)</u>	<u>-</u>	<u>-</u>
Change in net assets	182,935	35,563	218,498	585,707
Net Assets:				
Beginning	<u>1,606,083</u>	<u>18,148</u>	<u>1,624,231</u>	<u>1,038,524</u>
Ending	<u>\$ 1,789,018</u>	<u>\$ 53,711</u>	<u>\$ 1,842,729</u>	<u>\$ 1,624,231</u>

See Notes to Financial Statements.

Bronx Charter School for Better Learning

Statements of Functional Expenses

(with summarized comparative financial information for the year ended June 30, 2009)

Years Ended June 30, 2010 and 2009

	2010			2009	
	Program Services - Regular Education	Management and General	Fund- Raising	Total	Summarized Total
Salaries	\$ 2,751,234	\$ 270,940	\$ 166,216	\$ 3,188,390	\$ 2,705,272
Payroll taxes and employee benefits	496,264	176,421	30,559	703,244	607,010
Bookkeeping, financial consulting and auditing fees	77,127	57,109	627	134,863	175,650
Books and instructional supplies	158,035	437	651	159,123	166,261
Office supplies	17,191	6,872	377	24,440	21,149
Telephone and other utilities	10,964	3,590	709	15,263	11,751
Insurance	23,458	4,300	4,692	32,450	32,919
Staff development	66,366	-	-	66,366	75,639
Printing and communication	14,513	9,556	3,201	27,270	35,872
Travel	7,635	1,132	5,479	14,246	14,378
Depreciation	-	97,337	-	97,337	79,531
Meetings and group parent education	22,231	3,956	11,067	37,254	38,967
Repair and maintenance	41,587	6,849	3,397	51,833	27,774
Other	67,305	22,491	910	90,706	85,061
Total expenses	\$ 3,753,910	\$ 660,990	\$ 227,885	\$ 4,642,785	\$ 4,077,234

See Notes to Financial Statements.

Bronx Charter School for Better Learning

Statements of Cash Flows

Years Ended June 30, 2010 and 2009

	2010	2009
Cash Flows From Operating Activities:		
Change in net assets	\$ 218,498	\$ 585,707
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	97,337	79,531
Changes in operating assets and liabilities:		
Increase in restricted cash	(58)	(278)
Increase in grants, contracts and other receivable	(51,619)	(36,479)
(Increase) decrease in prepaid expenses	(8,601)	26,627
Decrease in accounts payable and accrued expenses	(13,418)	(14,405)
Net cash provided by operating activities	242,139	640,703
Cash Used in Investing Activity - acquisition of property and equipment	<u>(54,585)</u>	<u>(225,826)</u>
Net increase in cash and cash equivalents	187,554	414,877
Cash and Cash Equivalents:		
Beginning	<u>1,383,183</u>	<u>968,306</u>
Ending	<u>\$ 1,570,737</u>	<u>\$ 1,383,183</u>

See Notes to Financial Statements.

Bronx Charter School for Better Learning

Notes to Financial Statements

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

Principal Business Activity: 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.

Basis of Financial Statement Presentation: 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.

Grants and Refundable Advances: 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.

Contributions: 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: 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.

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

Property and Equipment Depreciation: 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.

Accounting 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 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.

Bronx Charter School for Better Learning

Notes to Financial Statements

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

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 2009 financial statements from which the summarized information was derived.

Subsequent Events: 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 available for issuance, which was September 24, 2010, for these financial statements.

Fair Value Implementation: In 2009, the School adopted Statement of Financial Accounting Standards 157, (SFAS 157), which is now referred to as Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 820, *Fair Value Measurements and Disclosures*. FASB ASC 820 provides a framework for measuring fair value under accounting principles generally accepted in the United States of America, and applies to all financial instruments that are being measured and reported on a fair value basis.

FASB ASC 820 sets out a fair value hierarchy and defines fair value as 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. The fair value hierarchy is defined as follows:

- Level 1: Inputs that reflect unadjusted quoted market prices in active markets for identical assets or liabilities that the School has the ability to access at the measurement date.
- Level 2: Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly, including inputs in markets that are not considered to be active.
- Level 3: Inputs that are unobservable for the asset or liability and that include situations where there is little, if any, market activity for the asset or liability. The inputs into the determination of fair value are based upon the best information in the circumstances and may require significant management judgment or estimate.

Financial instruments carried by the School and measured at fair value at June 30, 2010 consist of cash equivalents (certificates of deposit) amounting to \$992,695, and are classified as Level 2 in the fair value hierarchy.

Income Taxes: The School is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (the "Code"). As a nonprofit organization, the School is subject to unrelated business income tax ("UBIT"), if applicable. For the tax years ended June 30, 2010 and 2009, the School did not owe any UBIT.

On July 1, 2009, the School adopted the accounting standard on accounting for uncertainty in income taxes, which addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under this guidance, the School may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities, based on technical merits of the position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. The guidance on accounting for uncertainty in income taxes also addresses derecognition, classification, interest and penalties on income taxes, and accounting in interim periods.

Bronx Charter School for Better Learning

Notes to Financial Statements

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

Management evaluated the School's tax positions and concluded that the School had taken no uncertain tax positions that require adjustments to the financial statements to comply with the provisions of this guidance. With few exceptions, the School is no longer subject to income tax examinations by the U.S. federal, state or local tax authorities for years before 2006, which is the standard statute of limitations look-back period.

New Accounting Standard: In June 2009, the FASB established the FASB ASC or the "Codification" as the source of authoritative GAAP recognized by the FASB to be applied to nongovernmental entities, and rules and interpretative releases of the SEC as authoritative GAAP for SEC registrants. The Codification superseded all the existing non-SEC accounting and reporting standards upon its effective date and the FASB will not issue new standards in the form of statements, FASB Staff Positions or Emerging Issues Task Force Abstracts. This guidance also replaced the prior guidance regarding the GAAP hierarchy given that the guidance within the Codification carries the same level of authority. The Codification is effective for financial statements issued for interim and annual periods ending after September 15, 2009. The guidance is limited to disclosure in the financial statements and the names by which the School refers to GAAP authoritative literature. There was no impact on the School's financial statements.

Note 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.

Note 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 in the first quarter of 2013 when the School's charter expires. 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.

Note 4. Property and Equipment, Net

Property and equipment, at cost, consists of the following:

	<u>2010</u>	<u>2009</u>	<u>Estimated Useful Life</u>
Furniture and fixtures	\$ 361,015	\$ 319,415	5 years
Computer equipment	<u>255,586</u>	<u>242,601</u>	3 years
	616,601	562,016	
Less accumulated depreciation	<u>388,061</u>	<u>290,724</u>	
	<u>\$ 228,540</u>	<u>\$ 271,292</u>	

Note 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.

Bronx Charter School for Better Learning

Notes to Financial Statements

Note 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, 2010 amounted to \$12,590. At June 30, 2010 and 2009, temporarily restricted net assets are available for the following:

	<u>2010</u>	<u>2009</u>
Scholarship fund	\$ 13,158	\$ 13,298
Teacher training and development	35,703	-
Other purposes specified by donor	<u>4,850</u>	<u>4,850</u>
	<u>\$ 53,711</u>	<u>\$ 18,148</u>

Note 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.

Note 8. Conditional Contribution

The School received an award of \$200,000 that will be disbursed over a period of five years by the donor. Of the total amount, \$38,200 was recognized in the current fiscal year. The remaining amount of \$161,800 has not been recognized in the accompanying financial statements as successive payments are contingent upon the donor's approval of annual reports and satisfaction on the progress of the program being funded by the award.

Note 9. Pension Plan

The School sponsors a 403(b) retirement plan (the "Plan") for its employees. 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, 2010 and 2009, the School contributed approximately \$100,420 and \$93,000, respectively, to the Plan.

**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, 2010, and have issued our report thereon dated September 24, 2010. 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 deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the School's financial statement will not be prevented, or detected and corrected on a timely basis.

Our consideration of the 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, 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 24, 2010