

**EXCELLENCE BOYS CHARTER SCHOOL OF
BEDFORD STUYVESANT**

BROOKLYN, NEW YORK

AUDITED FINANCIAL STATEMENTS

**REPORT REQUIRED BY
GOVERNMENT AUDITING STANDARDS**

AND

INDEPENDENT AUDITORS' REPORTS

JUNE 30, 2010
(With Comparative Totals for 2009)

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MENGEL METZGER BARR & CO. LLP

Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

Board of Trustees
Excellence Boys Charter School of Bedford Stuyvesant

We have audited the accompanying statement of financial position of Excellence Boys Charter School of Bedford Stuyvesant as of June 30, 2010, and the related statements of activities and changes in net assets, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of the Charter 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 financial statements of Excellence Charter School of Bedford Stuyvesant as of and for the year ended June 30, 2009 and, in our report dated October 26, 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 Excellence Boys Charter School of Bedford Stuyvesant 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 October 13, 2010, on our consideration of Excellence Boys Charter School of Bedford Stuyvesant's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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.

Mengel, Metzger, Barw & Co. LLP

Rochester, New York
October 13, 2010

EXCELLENCE BOYS CHARTER SCHOOL OF BEDFORD STUYVESANT

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2010

(With Comparative Totals for 2009)

<u>ASSETS</u>	<u>June 30,</u>	
	<u>2010</u>	<u>2009</u>
<u>CURRENT ASSETS</u>		
Cash	\$ 726,864	\$ 534,712
Grants and other receivables	230,898	239,694
Prepaid expenses and other current assets	<u>6,395</u>	<u>9,993</u>
TOTAL CURRENT ASSETS	964,157	784,399
 <u>PROPERTY AND EQUIPMENT, net</u>	 <u>401,301</u>	 <u>416,544</u>
TOTAL ASSETS	<u>\$ 1,365,458</u>	<u>\$ 1,200,943</u>
 <u>LIABILITIES AND NET ASSETS</u>		
<u>CURRENT LIABILITIES</u>		
Accounts payable and accrued expenses	\$ 250,736	\$ 210,259
 <u>NET ASSETS, unrestricted</u>	 <u>1,114,722</u>	 <u>990,684</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,365,458</u>	<u>\$ 1,200,943</u>

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

EXCELLENCE BOYS CHARTER SCHOOL OF BEDFORD STUYVESANT

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

YEAR ENDED JUNE 30, 2010
(With Comparative Totals for 2009)

	<u>Year ended June 30,</u>	
	<u>2010</u>	<u>2009</u>
Operating revenue and support:		
State and local per pupil operating revenue	\$ 4,557,747	\$ 3,607,534
State and local grants	-	51,678
Federal grants	314,791	394,956
Contributions	686,384	740,383
Other income	24,955	10,473
TOTAL OPERATING REVENUE AND SUPPORT	<u>5,583,877</u>	<u>4,805,024</u>
Expenses:		
Program services - education	4,881,895	4,094,614
General and administrative	577,944	482,234
TOTAL EXPENSES	<u>5,459,839</u>	<u>4,576,848</u>
CHANGE IN NET ASSETS	124,038	228,176
Unrestricted net assets at beginning of year	<u>990,684</u>	<u>762,508</u>
UNRESTRICTED NET ASSETS AT END OF YEAR	<u>\$ 1,114,722</u>	<u>\$ 990,684</u>

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

EXCELLENCE BOYS CHARTER SCHOOL OF BEDFORD STUYVESANT

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2010
(With Comparative Totals for 2009)

	Program services - education	General and administrative	Total Year ended June 30,	
			2010	2009
Salaries	\$ 3,238,835	\$ 290,072	\$ 3,528,907	\$ 2,797,639
Payroll taxes and employee benefits	553,677	49,588	603,265	563,223
Repairs and maintenance	13,719	-	13,719	8,983
Textbooks	18,402	-	18,402	14,758
Instructional supplies and assessments	105,334	-	105,334	50,348
Computer and technology supplies	67,826	-	67,826	45,598
Student enrichment and services	128,584	-	128,584	181,012
Professional development	185,525	-	185,525	293,793
Professional services	-	13,307	13,307	9,270
Telephone	-	45,030	45,030	35,310
Insurance	-	61,157	61,157	23,635
Management fees	409,908	72,337	482,245	379,721
Office expense	29,099	38,525	67,624	54,273
Depreciation and amortization	104,721	1,425	106,146	88,705
Contributions	-	-	-	27,739
Bad debt expense	26,265	-	26,265	-
Other	-	6,503	6,503	2,841
	<u>\$ 4,881,895</u>	<u>\$ 577,944</u>	<u>\$ 5,459,839</u>	<u>\$ 4,576,848</u>

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

EXCELLENCE BOYS CHARTER SCHOOL OF BEDFORD STUYVESANT

STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2010
(With Comparative Totals for 2009)

	<u>Year ended June 30,</u>	
	<u>2010</u>	<u>2009</u>
<u>CASH FLOWS - OPERATING ACTIVITIES</u>		
Change in net assets	\$ 124,038	\$ 228,176
Adjustments to reconcile change in net assets to net cash provided from operating activities:		
Depreciation and amortization	106,146	88,705
Bad debt expense	26,265	-
Changes in certain assets and liabilities affecting operations:		
Grants and other receivables	(17,469)	82,126
Prepaid expenses and other current assets	3,598	187,731
Accounts payable and accrued expenses	<u>40,477</u>	<u>(305,402)</u>
NET CASH PROVIDED FROM OPERATING ACTIVITIES	283,055	281,336
<u>CASH FLOWS - INVESTING ACTIVITIES</u>		
Purchases of property and equipment	<u>(90,903)</u>	<u>(26,075)</u>
NET CASH USED FOR INVESTING ACTIVITIES	<u>(90,903)</u>	<u>(26,075)</u>
NET INCREASE IN CASH	192,152	255,261
Cash at beginning of year	<u>534,712</u>	<u>279,451</u>
CASH AT END OF YEAR	<u>\$ 726,864</u>	<u>\$ 534,712</u>

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

EXCELLENCE BOYS CHARTER SCHOOL OF BEDFORD STUYVESANT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010 AND 2009

NOTE A: THE CHARTER SCHOOL AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Charter School

Excellence Boys Charter School of Bedford Stuyvesant (the “Charter School”), is an educational corporation that commenced operating as a charter school in the borough of Brooklyn, New York City in July 2004. On February 19, 2010, the Charter School amended the provisional charter granted by the Board of Regents of the University of the State of New York which is valid for a term of five years and renewable upon expiration.

The Charter School’s mission is to prepare students to enter, succeed in and graduate from outstanding college preparatory high schools and colleges.

Financial Statement presentation

The financial statements of the Charter School have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. The Charter School reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

These classes of net assets are defined as follows:

Permanently restricted – Net assets resulting from contributions and other inflows of assets whose use by the Charter School is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Charter School. The Charter School had no permanently restricted net assets at June 30, 2010 or 2009.

Temporarily restricted – Net assets resulting from contributions and other inflows of assets whose use by the Charter School is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Charter School pursuant to those stipulations. The Charter School had no temporarily restricted net assets at June 30, 2010 or 2009.

Unrestricted – The net assets over which the Governing Board has discretionary control to use in carrying on the Charter School’s operations in accordance with the guidelines established by the Charter School. The Board may designate portions of the current unrestricted net assets for specific purposes, projects or investment.

Revenue and support recognition

Revenue from state and local governments resulting from the Charter 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 government grants and contracts are recorded by the Charter School when qualifying expenditures are incurred and billable.

EXCELLENCE BOYS CHARTER SCHOOL OF BEDFORD STUYVESANT

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2010 AND 2009

NOTE A: THE CHARTER SCHOOL AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES,

Cont'd

Contributions

Contributions received are recorded as unrestricted, temporarily or permanently restricted support depending on the existence of any donor restrictions. A contribution that is received and expended in the same year for a specific purpose is classified as unrestricted revenue.

Contributions are recorded 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 purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities and changes in net assets as net assets released from restrictions.

Cash

The Charter School maintains its cash balances in certain financial institutions located in New York. Cash balances are insured by the Federal Deposit Insurance Corporation up to \$250,000 at each institution. Total uninsured balances approximated \$478,000 at June 30, 2010. The Charter School has not experienced any losses in such accounts and management believes it is not exposed to any significant risk in cash.

Grants and other receivables

Grants and other receivables are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts based on its assessment of the current status of individual receivables from grants, agencies and others. Balances that are still outstanding after management has used reasonable collection efforts are written off against the allowance for doubtful accounts. There was no allowance for doubtful accounts at June 30, 2010 or 2009.

Property and equipment

Property and equipment are recorded at cost. Depreciation is computed using the straight-line method on a basis considered adequate to depreciate the assets over their estimated useful lives, which range from three to ten years.

Tax exempt status

The Charter School is a tax-exempt organization under section 501(c)(3) of the Internal Revenue Code and applicable state regulations and, accordingly, is exempt from federal and state taxes on income.

The Charter School has filed for and received income tax exemptions in the jurisdictions where it is required to do so. The Charter School files tax returns in the U.S. federal jurisdiction. With few exceptions, as of June 30, 2010, the Charter School is no longer subject to U.S. federal income tax examinations by tax authorities for the years ended prior to June 30, 2007. The tax returns for the years ended June 30, 2007 through June 30, 2010 are still subject to potential audit by the IRS. The Charter School adopted the provisions of FASB ASC 740-10 Accounting for Uncertainty in Income Taxes (formerly FIN 48), and its related amendment on July 1, 2009. Management of the Charter School believes it has no material uncertain tax positions and, accordingly it will not recognize any liability for unrecognized tax benefits.

EXCELLENCE BOYS CHARTER SCHOOL OF BEDFORD STUYVESANT

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2010 AND 2009

NOTE A: THE CHARTER SCHOOL AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES,

Cont'd

Contributed services

The Charter School receives contributed services from volunteers to develop its academic program and to serve on the Board of Trustees. These services are not valued in the financial statements because they do not require "specialized skills" and would typically not be purchased if they were not contributed.

Use of estimates in the preparation of financial statements

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 and disclosure of contingent 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.

Subsequent events

The Charter School has conducted an evaluation of potential subsequent events occurring after the statement of financial position date through October 13, 2010, which is the date the financial statements are available to be issued. No subsequent events requiring disclosure were noted.

Comparatives for year ended June 30, 2009

The financial statements include certain 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 accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Charter School's financial statements for the year ended June 30, 2009, from which the summarized information was derived.

NOTE B: RELATED PARTY TRANSACTIONS

From inception, the Charter School has been assisted in the pursuit of its educational goals by Uncommon Schools, Inc. ("USI") and its affiliate, Excellence Academies Foundation, Inc. ("EAF"). USI, a not-for-profit organization dedicated to helping start and run charter schools, provides management and other administrative support services to the Charter School.

USI and EAF raised the initial funding to plan the Charter School and to ensure and finance both the temporary and permanent facilities.

The Charter School entered into a five year agreement with USI, dated July 1, 2005, revised with a five year agreement dated September 26, 2006, under which the Charter School pays a services fee of 10% of the average number of students enrolled at the Charter School during the school year multiplied by the approved per pupil operating expense for the school year, and 10% of all other public entitlement funding receivable for the school year, excluding in-kind contributions and funds from competitive public grants. The fee incurred for the years ended June 30, 2010 and 2009 was approximately \$482,000 and \$380,000, respectively. At June 30, 2009, approximately \$106,000 is included in accounts receivable relating to USI. At June 30, 2010 and 2009 approximately \$132,000 and \$142,000, respectively, are included in accounts payable relating to USI.

EXCELLENCE BOYS CHARTER SCHOOL OF BEDFORD STUYVESANT

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2010 AND 2009

NOTE B: RELATED PARTY TRANSACTIONS, Cont'd

The Charter School entered into an operating lease for office and instructional space with EAF on May 15, 2006. The agreement requires the Charter School to make an annual rental payment of \$1 for one year beginning July 1, 2006. EAF has entered into a sales transaction with the Board of Education to purchase the building, at which time the Board of Education would enter into a lease agreement with the Charter School to lease the facility for \$1 annually for up to 99 years. As of the date of the financial statements, this transaction has not been completed and, therefore, EAF continues to own the building and is continuing to lease the space to the Charter School for \$1 annually based on a verbal agreement.

NOTE C: PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	<u>June 30,</u>	
	<u>2010</u>	<u>2009</u>
Furniture and fixtures	\$ 68,521	\$ 60,750
Computer software	333,301	250,661
Leasehold improvements	<u>451,232</u>	<u>450,740</u>
	853,054	762,151
Less accumulated depreciation and amortization	<u>451,753</u>	<u>345,607</u>
	<u>\$ 401,301</u>	<u>\$ 416,544</u>

NOTE D: RETIREMENT PLAN

The Charter School sponsors a defined contribution 403(b) plan covering most employees. The Charter School matches employee's contributions up to 3% of gross payroll. The Charter School's total contribution to the Plan for the years ended June 30, 2010 and 2009 approximated \$34,700 and \$69,900, respectively.

NOTE E: CONTINGENCY

Certain grants and contracts may be subject to audit by funding sources. Such audits might result in disallowance of costs submitted for reimbursement by the Charter School. Management is of the opinion that such 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.

EXCELLENCE BOYS CHARTER SCHOOL OF BEDFORD STUYVESANT

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2010 AND 2009

NOTE F: CONCENTRATION

At June 30, 2010 and 2009, approximately 99% and 49%, respectively, of accounts receivable are due from New York State.

During the years ended June 30, 2010 and 2009, 82% and 75%, respectively, of total operating revenue and support came from per-pupil funding provided by New York State. The per-pupil rate is set annually by the State based on the school district in which the Charter School is located.

EXCELLENCE BOYS CHARTER SCHOOL OF BEDFORD STUYVESANT

REPORT REQUIRED BY GOVERNMENT AUDITING STANDARDS



MENGEL METZGER BARR & CO. LLP

Certified Public Accountants

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Trustees
Excellence Boys Charter School of Bedford Stuyvesant

We have audited the financial statements of Excellence Boys Charter School of Bedford Stuyvesant (the "Charter School") as of and for the year ended June 30, 2010, and have issued our report thereon dated October 13, 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 Excellence Boys Charter School of Bedford Stuyvesant'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 Excellence Boys Charter School of Bedford Stuyvesant's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Charter 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 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified a certain deficiency in internal control over financial reporting, described in the accompanying schedule of findings and responses, item 2010-1, to be a significant deficiency in internal control over financial reporting. 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Excellence Boys Charter School of Bedford Stuyvesant'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 management of Excellence Boys Charter School of Bedford Stuyvesant in a separate letter dated October 13, 2010.

The Charter School's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. We did not audit the Charter School's response, and accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board of Trustees, management, federal, state and local awarding agencies, The Charter Schools Institute of the State University of New York and the State Education Department of the State University of New York, and others within the Charter School and is not intended to be and should not be used by anyone other than these specified parties.

Mengel, Metzger, Barw & Co. LLP

Rochester, New York
October 13, 2010

EXCELLENCE BOYS CHARTER SCHOOL OF BEDFORD STUYVESANT

SCHEDULE OF FINDINGS AND RESPONSES

YEAR ENDED JUNE 30, 2010

Finding 2010-1

Statement of condition

We noted during our audit a significant misstatement of expenses and accounts payable.

Criteria and effect of conditions

This misstatement occurred as a result of the Charter School not submitting contract and payment requests to the management company on a timely basis. Accounts payable and expenses were misstated and required adjustment.

Recommendation

We recommend the Charter School improve their communication with the management company regarding invoices and contracts requiring payment noting what fiscal period they relate to in order to ensure all expenses and payables are captured in the correct period.

Management's response

Uncommon Schools will thoroughly review invoices received during the two months prior to fiscal year-end to ensure proper recording.