

**Bronx Charter School for
Excellence and Affiliate**

Combined Financial Report

June 30, 2010

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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, 2010, 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 2009 financial statements and in our report, dated October 27, 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 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, 2010, 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 and changes in net assets 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 21, 2010, on our consideration of the Organization's internal control over financial reporting and our tests of its 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 21, 2010

Bronx Charter School for Excellence and Affiliate

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

	2010	2009
ASSETS		
Cash and Cash Equivalents (Note 1)	\$ 1,763,052	\$ 814,165
Contributions and Other Receivables (Notes 1 and 2)	161,689	309,738
Prepaid Expenses and Other Assets	129,633	126,311
Deferred Leasing Commissions (Note 1)	350,252	364,262
Property and Equipment, net (Notes 1 and 3)	1,822,337	1,901,277
Deposit (Note 5)	<u>-</u>	<u>1,000,000</u>
Total assets	<u>\$ 4,226,963</u>	<u>\$ 4,515,753</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	\$ 423,998	\$ 380,272
Note payable (Note 4)	15,291	179,365
Due to DOE	26,358	-
Deferred rent (Note 5)	<u>2,637,005</u>	<u>2,109,604</u>
Total liabilities	<u>3,102,652</u>	<u>2,669,241</u>
Commitments and Contingency (Notes 5 and 9)		
Net Assets:		
Unrestricted (Note 1)	1,024,311	1,646,512
Temporarily restricted (Notes 1 and 8)	<u>100,000</u>	<u>200,000</u>
Total net assets	<u>1,124,311</u>	<u>1,846,512</u>
Total liabilities and net assets	<u>\$ 4,226,963</u>	<u>\$ 4,515,753</u>

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, 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 Revenue:				
State and local per pupil operating revenue (Note 1)	\$ 4,300,314	\$ -	\$ 4,300,314	\$ 3,986,189
Government grants and contracts (Note 1)	236,554	-	236,554	163,019
Total operating revenue	<u>4,536,868</u>	<u>-</u>	<u>4,536,868</u>	<u>4,149,208</u>
Operating Expenses:				
Program services - School operations	3,675,783	-	3,675,783	3,642,143
General and administrative	1,749,646	-	1,749,646	431,749
Total operating expenses (Notes 5, 6 and 7)	<u>5,425,429</u>	<u>-</u>	<u>5,425,429</u>	<u>4,073,892</u>
(Deficit) surplus from operations	<u>(888,561)</u>	<u>-</u>	<u>(888,561)</u>	<u>75,316</u>
Support and Other Revenue:				
Contributions (Note 1):				
Foundations	89,047	-	89,047	471,454
Corporations	2,738	-	2,738	-
Individuals	37,435	-	37,435	48,006
Donated goods	24,393	-	24,393	22,219
Other contributions and grants (inclusive of receipts amounting to \$0 and \$47,749, respectively, from special event)	-	-	-	50,029
Interest income	5,772	-	5,772	4,693
Miscellaneous income	12,292	-	12,292	17,074
Net assets released from satisfaction of purpose and time restrictions (Note 8)	100,000	(100,000)	-	-
Fund-raising expenses (inclusive of direct costs amounting to \$0 and \$5,214, respectively, from special event)	(5,317)	-	(5,317)	(125,279)
Total support and other revenue	<u>266,360</u>	<u>(100,000)</u>	<u>166,360</u>	<u>488,196</u>
Change in net assets	<u>(622,201)</u>	<u>(100,000)</u>	<u>(722,201)</u>	<u>563,512</u>
Net Assets:				
Beginning	<u>1,646,512</u>	<u>200,000</u>	<u>1,846,512</u>	<u>1,283,000</u>
Ending	<u>\$ 1,024,311</u>	<u>\$ 100,000</u>	<u>\$ 1,124,311</u>	<u>\$ 1,846,512</u>

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, 2009)
Years Ended June 30, 2010 and 2009

	2010				2009	
	Program Services - School Operations	General and Administrative	Fund- Raising	Total Supporting Services	Total	Summarized Total
Personnel expenses:						
Payroll	\$ 1,842,068	\$ 304,984	\$ 2,715	\$ 307,699	\$ 2,149,767	\$ 2,023,433
Payroll taxes and benefits	381,523	63,243	563	63,806	445,329	416,761
Rent (Note 5)	773,029	128,231	1,141	129,372	902,401	902,401
Academic programs	183,844	-	-	-	183,844	148,788
Development studies	-	6,538	-	6,538	6,538	61,634
Facility maintenance and security	212,035	35,173	313	35,486	247,521	232,870
Utilities	44,133	7,321	65	7,386	51,519	45,355
Consultants and substitute teachers	8,513	37,732	-	37,732	46,245	17,566
Loan interest	-	4,831	-	4,831	4,831	13,625
Professional fees	42,974	108,943	63	109,006	151,980	103,871
Depreciation and amortization	73,768	26,247	109	26,356	100,124	118,008
Insurance	25,381	7,787	38	7,825	33,206	33,746
Office and other	81,817	14,932	300	15,232	97,049	67,697
Telephone and Internet	6,698	1,111	10	1,121	7,819	8,202
Fund-raising expenses	-	-	-	-	-	5,214
Loss on option premium deposit (Note 5)	-	1,002,573	-	1,002,573	1,002,573	-
	<u>\$ 3,675,783</u>	<u>\$ 1,749,646</u>	<u>\$ 5,317</u>	<u>\$ 1,754,963</u>	<u>\$ 5,430,746</u>	<u>\$ 4,199,171</u>

See Notes to Combined Financial Statements.

Bronx Charter School for Excellence and Affiliate

**Combined Statements of Cash Flows
Years Ended June 30, 2010 and 2009**

	2010	2009
Cash Flows From Operating Activities:		
Change in net assets	\$ (722,201)	\$ 563,512
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	100,124	118,008
Deferred rent	527,401	527,401
Loss on option premium	1,002,573	-
Changes in operating assets and liabilities:		
Decrease (increase) in contributions and other receivables	148,049	(250,534)
Increase in prepaid expenses and other assets	(3,322)	(17,899)
Increase in accounts payable and accrued expenses	43,726	56,995
Increase (decrease) in due to DOE	26,358	(19,556)
Net cash provided by operating activities	1,122,708	977,927
Cash Flows From Investing Activities:		
Payments made on leasehold improvements	-	(336,702)
Purchases of property and equipment	(9,747)	(38,774)
Cash used in investing activities	(9,747)	(375,476)
Cash Used in Financing Activity - principal payments on note payable	(164,074)	(170,635)
Net increase in cash and cash equivalents	948,887	431,816
Cash and Cash Equivalents:		
Beginning	814,165	382,349
Ending	\$ 1,763,052	\$ 814,165
Supplemental Disclosure of Cash Flow information:		
Cash paid during the year for interest	\$ 4,831	\$ 13,625

See Notes to Combined Financial Statements.

Bronx Charter School for Excellence and Affiliate

Notes to Combined Financial Statements

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 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 2010, 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 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 2010, 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.

The Financial Accounting Standards Board (the "FASB") Accounting Standards Codification (the "Codification" or "ASC") became effective July 1, 2009, at which point all then-existing non-Securities and Exchange Commission ("SEC") accounting and reporting standards were superseded. As a result of the adoption of the Codification, the School and Friends changed the way they reference accounting principles generally accepted in the United States of America throughout the notes to the combined financial statements. This standard did not have an impact on the combined financial statements.

Principles 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, 2009 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

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.

Deferred 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 \$2,000. 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 restrictions 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.

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.

Bronx Charter School for Excellence and Affiliate

Notes to Combined Financial Statements

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

Fair Value of Financial Instruments: The School reports its investments under ASC 820 (formerly Statement of Financial Accounting Standards ("SFAS") No. 157), *Fair Value Measurements*. ASC 820 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurement. ASC 820 also emphasizes that fair value is a market-based measurement, not an entity-specific measurement, and sets out a fair value hierarchy with the highest priority being quoted prices in active markets. Under ASC 820, fair value measurements are disclosed by level within that hierarchy.

The School determines the fair values of its investments based on the fair value hierarchy established in ASC 820, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value, which are as follows:

- Level 1: Inputs that reflect unadjusted quoted market prices in active markets at the measurement date that the Organization has the ability to access at the measurement date.
- Level 2: Inputs other than quoted market 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 and 2009 consist of cash equivalents (money market fund) amounting to \$27,355 and \$26,513, respectively, and are classified as Level 1 in the fair value hierarchy.

Income Taxes: The School and Friends are exempt from federal income taxes under Section 501(a) of the Internal Revenue Code (the "Code") as organizations formed for charitable purposes under Section 501(c)(3) of the Code and, accordingly, are not subject to income taxes. Additionally, the School and Friends as nonprofit entities are subject to unrelated business income tax ("UBIT"), if applicable. For the tax years ended June 30, 2010 and 2009, the School and Friends did not owe any UBIT.

On July 1, 2009, the Organization adopted the accounting standard on accounting for uncertainty in income taxes (ASC 740, formerly FASB Interpretation No. 48), 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 Organization 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 the 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.

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

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 and/or disclosed in the financial statements. Such evaluation is performed through the date the financial statements are available for issuance, which was October 21, 2010 for these combined financial statements.

Bronx Charter School for Excellence and Affiliate

Notes to Combined Financial Statements

Note 2. Contributions and Other Receivables

As of June 30, 2010 and 2009, contributions and other receivables amounted to \$161,689 and \$309,738, respectively. Contributions and other receivables include receivables from government contracts and unconditional promises to give, which are all due as follows:

	<u>2010</u>	<u>2009</u>
Less than one year	\$ 161,689	\$ 209,738
One to five years	<u>-</u>	<u>100,000</u>
	<u>\$ 161,689</u>	<u>\$ 309,738</u>

All contributions and other receivables are deemed collectible when due. Accordingly, no allowance for doubtful contributions and other receivables has been provided in the accompanying combined financial statements.

Note 3. Property and Equipment, Net

Property and equipment, net, at cost or fair market value at date of donation, consist of the following at June 30, 2010 and 2009:

	<u>2010</u>	<u>2009</u>	Estimated Useful Life
Computer and other equipment	\$ 132,182	\$ 122,436	5 years
Furniture and fixtures	84,211	84,211	5 years
Leasehold improvements	<u>2,007,748</u>	<u>2,010,320</u>	Shorter of lease term or 30 years
	2,224,141	2,216,967	
Less accumulated depreciation and amortization	<u>(401,804)</u>	<u>(315,690)</u>	
	<u>\$ 1,822,337</u>	<u>\$ 1,901,277</u>	

On August 1, 2010, the School entered into a 4-year operating lease agreement not cancelable for 3 years with an unrelated third party for a facility in the Bronx, New York. This facility is to be used to operate classes for students in grades 5 through 8. In conjunction with this lease agreement, the School also entered into a separate contractual arrangement with a contractor to complete interior and exterior renovation work at an estimated cost of approximately \$329,000.

Note 4. Note Payable

Note payable amounted to \$15,291 (which represents one remaining payment) and \$179,365 as of June 30, 2010 and 2009, 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 with a scheduled payoff date of 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 \$4,831 and \$13,625 for the years ended June 30, 2010 and 2009, respectively.

Bronx Charter School for Excellence and Affiliate

Notes to Combined Financial Statements

Note 5. Commitments

Friends 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.

In addition, the School entered into a 4-year operating lease agreement not cancelable for 3 years with an unrelated third-party for a facility in the Bronx, New York in August 2010. This facility is to be used to operate classes for students in grades 5 through 8. This lease provides a leasehold incentive (work credit) of \$78,173 for costs to be incurred by the School to renovate the exterior of the building providing space for its middle school. The work credit will be amortized against the base rent on a monthly basis during the entire term of this lease. In conjunction with this lease agreement, the School also entered into a separate contractual arrangement with a contractor to complete interior and exterior renovation work at an estimated cost of approximately \$329,000.

Minimum future rental payments under these leases and sublease are summarized as follows:

<u>Year Ending</u>	<u>1960 Benedict Avenue</u>	<u>1804 Holland Avenue</u>	<u>Total</u>
2011	\$ 506,250	\$ 136,496	\$ 642,746
2012	506,250	148,905	655,155
2013	506,250	148,905	655,155
2014	506,250	148,905	655,155
2015	506,250	12,409	518,659
Thereafter	22,665,785	-	22,665,785
	<u>\$ 25,197,035</u>	<u>\$ 595,620</u>	<u>\$ 25,792,655</u>

The lease at 1960 Benedict Avenue provides for rent escalations and the School is responsible for real estate taxes and other operating expenses. The lease at 1804 Holland Avenue will require a net monthly rental payment of \$12,409 and 90% of utility charges incurred at this facility.

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, 2010 and 2009, rent expense amounted to \$902,401 each year, which includes noncash deferred rent adjustments of \$527,401 for each of these years.

Friends had made a nonrefundable \$1,000,000 option premium deposit to the landlord at the 1960 Benedict Avenue facility, entitling Friends to acquire the land and building pertaining to this leased facility for a fixed purchase price of \$8,000,000. The option had to be exercised on or before July 1, 2010. Friends has elected not to exercise the option and, as a result, the \$1,000,000 deposit and related capitalized professional fees amounting to \$2,573 have been expensed during fiscal 2010, and are included in the loss on option premium deposit in the combined statements of functional expenses.

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, 2010 and 2009, employer matching contributions in connection with this plan amounted to approximately \$55,000 and \$60,000, respectively, net of forfeitures.

Bronx Charter School for Excellence and Affiliate

Notes to Combined Financial Statements

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 services.

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 nonprogrammatic/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 of \$100,000 and \$200,000 represent time restrictions for future periods as of June 30, 2010 and 2009, respectively. During fiscal year 2010, the School released \$100,000 of time restricted net assets for current use.

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.

**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, 2010, and have issued our report thereon dated October 21, 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 Bronx Charter School for Excellence and Affiliate'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 Bronx Charter School for Excellence and Affiliate's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Bronx Charter School for Excellence and Affiliate'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 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 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 Bronx Charter School for Excellence and Affiliate'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 Bronx Charter School for Excellence and Affiliate in a separate letter dated October 21, 2010.

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 21, 2010

Bronx Charter School for Excellence and Affiliate

Supplementary Information

Combining Statements of Financial Position

(with summarized comparative financial information as of June 30, 2009)

June 30, 2010 and 2009

See Auditor's Report

	2010			2009	
	<u>Bronx Charter School for Excellence</u>	<u>Friends of Bronx Charter School for Excellence, Inc.</u>	<u>Eliminations</u>	<u>Total</u>	<u>Summarized Total</u>
ASSETS					
Cash and Cash Equivalents (Note 1)	\$ 1,758,197	\$ 4,855	\$ -	\$ 1,763,052	\$ 814,165
Contributions and Other Receivables (Notes 1 and 2)	159,460	2,229	-	161,689	309,738
Due From Affiliate	61,596	-	(61,596)	-	-
Prepaid Expenses and Other Assets	128,355	1,278	-	129,633	126,311
Deferred Leasing Commissions (Note 1)	-	350,252	-	350,252	364,262
Property and Equipment, net (Notes 1 and 3)	1,822,337	-	-	1,822,337	1,901,277
Deposit (Note 5)	-	-	-	-	1,000,000
Total assets	<u>\$ 3,929,945</u>	<u>\$ 358,614</u>	<u>\$ (61,596)</u>	<u>\$ 4,226,963</u>	<u>\$ 4,515,753</u>
LIABILITIES AND NET ASSETS					
Liabilities:					
Accounts payable and accrued expenses	\$ 423,809	\$ 189	\$ -	\$ 423,998	\$ 380,272
Note payable (Note 4)	-	15,291	-	15,291	179,365
Due to DOE	26,358	-	-	26,358	-
Deferred rent (Note 5)	2,637,005	-	-	2,637,005	2,109,604
Due to affiliate	-	61,596	(61,596)	-	-
Total liabilities	<u>3,087,172</u>	<u>77,076</u>	<u>(61,596)</u>	<u>3,102,652</u>	<u>2,669,241</u>
Commitments and Contingency (Notes 5 and 9)					
Net Assets:					
Unrestricted (Note 1)	742,773	281,538	-	1,024,311	1,646,512
Temporarily restricted (Notes 1 and 8)	100,000	-	-	100,000	200,000
Total net assets	<u>842,773</u>	<u>281,538</u>	<u>-</u>	<u>1,124,311</u>	<u>1,846,512</u>
Total liabilities and net assets	<u>\$ 3,929,945</u>	<u>\$ 358,614</u>	<u>\$ (61,596)</u>	<u>\$ 4,226,963</u>	<u>\$ 4,515,753</u>

Bronx Charter School for Excellence and Affiliate

Supplementary Information

Combining Statements of Activities

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

Years Ended June 30, 2010 and 2009

See Auditor's Report

	2010		2009	
	<u>Bronx Charter School for Excellence</u>	<u>Friends of Bronx Charter School for Excellence, Inc.</u>	<u>Total</u>	<u>Summarized Total</u>
Operating Revenue:				
State and local per pupil operating revenue (Note 1)	\$ 4,300,314	\$ -	\$ 4,300,314	\$ 3,986,189
Government grants and contracts (Note 1)	<u>236,554</u>	<u>-</u>	<u>236,554</u>	<u>163,019</u>
Total operating revenue	<u>4,536,868</u>	<u>-</u>	<u>4,536,868</u>	<u>4,149,208</u>
Operating Expenses:				
Program services - School operations	3,675,783	-	3,675,783	3,642,143
General and administrative	<u>720,542</u>	<u>1,029,104</u>	<u>1,749,646</u>	<u>431,749</u>
Total operating expenses (Notes 5, 6 and 7)	<u>4,396,325</u>	<u>1,029,104</u>	<u>5,425,429</u>	<u>4,073,892</u>
Surplus (deficit) from operations	<u>140,543</u>	<u>(1,029,104)</u>	<u>(888,561)</u>	<u>75,316</u>
Support and Other Revenue:				
Contributions (Note 1):				
Foundations	14,047	75,000	89,047	471,454
Corporations	2,738	-	2,738	-
Individuals	14,305	23,130	37,435	48,006
Donated goods	24,393	-	24,393	22,219
Other contributions and grants (inclusive of receipts amounting to \$0 and \$47,749, respectively, from special events)	-	-	-	50,029
Interest income	5,742	30	5,772	4,693
Miscellaneous income	12,292	-	12,292	17,074
Fund-raising expenses (inclusive of direct costs amounting to \$0, and \$5,214, respectively, from special event)	<u>(5,273)</u>	<u>(44)</u>	<u>(5,317)</u>	<u>(125,279)</u>
Total support and other revenue	<u>68,244</u>	<u>98,116</u>	<u>166,360</u>	<u>488,196</u>
Change in net assets	<u>208,787</u>	<u>(930,988)</u>	<u>(722,201)</u>	<u>563,512</u>
Net Assets:				
Beginning	<u>633,986</u>	<u>1,212,526</u>	<u>1,846,512</u>	<u>1,283,000</u>
Ending	<u>\$ 842,773</u>	<u>\$ 281,538</u>	<u>\$ 1,124,311</u>	<u>\$ 1,846,512</u>

Bronx Charter School for Excellence and Affiliate

Supplementary Information

**Statements of Functional Expenses - Bronx Charter School for Excellence
(with summarized comparative financial information for the year ended June 30, 2009)
Years Ended June 30, 2010 and 2009
See Auditor's Report**

	2010				2009	
	Program Services - School Operations	General and Administrative	Fund- Raising	Total Supporting Services	Total	Summarized Total
Personnel expenses:						
Payroll	\$ 1,842,068	\$ 302,692	\$ 2,692	\$ 305,384	\$ 2,147,452	\$ 2,015,097
Payroll taxes and benefits	381,523	61,158	542	61,700	443,223	415,044
Rent (Note 5)	773,029	128,231	1,141	129,372	902,401	902,401
Academic programs	183,844	-	-	-	183,844	148,788
Development studies	-	6,538	-	6,538	6,538	61,634
Facility maintenance and security	212,035	35,173	313	35,486	247,521	232,870
Utilities	44,133	7,321	65	7,386	51,519	45,355
Consultants and substitute teachers	8,513	37,732	-	37,732	46,245	17,566
Professional fees	42,974	108,943	63	109,006	151,980	99,979
Depreciation and amortization	73,768	12,237	109	12,346	86,114	103,998
Insurance	25,381	6,383	38	6,421	31,802	32,059
Office and other	81,817	13,023	300	13,323	95,140	66,421
Telephone and Internet	6,698	1,111	10	1,121	7,819	7,792
	<u>\$ 3,675,783</u>	<u>\$ 720,542</u>	<u>\$ 5,273</u>	<u>\$ 725,815</u>	<u>\$ 4,401,598</u>	<u>\$ 4,149,004</u>

Bronx Charter School for Excellence and Affiliate

Supplementary Information

Statements of Functional Expenses - Friends of Bronx Charter School for Excellence, Inc.
 (with summarized comparative financial information for the year ended June 30, 2009)
 Years Ended June 30, 2010 and 2009
 See Auditor's Report

	2010				2009	
Program Services - Support to Bronx Charter School for Excellence	General and Administrative	Fund-Raising	Total Supporting Services	Total	Summarized Total	
Personnel expenses:						
Payroll	\$ -	\$ 2,292	\$ 23	\$ 2,315	\$ 8,336	
Payroll taxes and benefits	-	2,085	21	2,106	1,717	
Loan interest	-	4,831	-	4,831	13,625	
Professional fees	-	-	-	-	3,892	
Depreciation and amortization	-	14,010	-	14,010	14,010	
Insurance	-	1,404	-	1,404	1,687	
Office and other	-	1,909	-	1,909	1,276	
Telephone and Internet	-	-	-	-	410	
Fund-raising expenses	-	-	-	-	5,214	
Loss on option premium deposit (Note 5)	-	1,002,573	-	1,002,573	-	
	<u>\$ -</u>	<u>\$ 1,029,104</u>	<u>\$ 44</u>	<u>\$ 1,029,148</u>	<u>\$ 50,167</u>	