

**BRIGHTER CHOICE CHARTER MIDDLE SCHOOL FOR BOYS
FINANCIAL REPORT
JUNE 30, 2013**

BRIGHTER CHOICE CHARTER MIDDLE SCHOOL FOR BOYS

TABLE OF CONTENTS

	PAGE
INDEPENDENT AUDITOR'S REPORT	1-2
STATEMENT OF FINANCIAL POSITION	3
STATEMENT OF ACTIVITIES	4
STATEMENT OF CASH FLOWS	5
NOTES TO FINANCIAL STATEMENTS	6-13
SCHEDULE OF FUNCTIONAL EXPENSES	14
INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	15-16
SCHEDULE OF FINDINGS AND RESPONSES	17

Independent Auditor's Report

Kevin J. McCoy, CPA
Thomas W. Donovan, CPA
Frank S. Venezia, CPA
James E. Amell, CPA
Carol A. Hausamann, CPA
Benjamin R. Lasher, CPA
Daniel J. Litz, CPA
Karl F. Newton, CPA
Kevin P. O'Leary, CPA
Timothy A. Reynolds, CPA
Leo A. Rigby, CPA

To the Board of Directors
Brighter Choice Charter Middle School for Boys

Report on the Financial Statements

We have audited the accompanying financial statements of Brighter Choice Charter Middle School for Boys (the School), which comprise the statement of financial position as of June 30, 2013, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Thomas J. Ross, CPA
Heather D. Patten, CPA

■

11 British American Blvd.
Latham, NY 12110
Ph: 518-785-0134
Fx: 518-785-0299

111 Everts Avenue
Queensbury, NY 12804
Ph: 518-792-6596
Fx: 518-792-6635

■

Email:
webmaster@marvincpa.com

Web:
<http://www.marvincpa.com>

■

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Brighter Choice Charter Middle School for Boys as of June 30, 2013, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of functional expenses on page 14 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 25, 2013 on our consideration of Brighter Choice Charter Middle School for Boys' internal control over financial reporting and on 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 compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Brighter Choice Charter Middle School for Boys' internal control over financial reporting and compliance.

Marvin and Company, P.C.

Latham, NY
October 25, 2013

BRIGHTER CHOICE CHARTER MIDDLE SCHOOL FOR BOYS
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2013

ASSETS

Current Assets

Cash and cash equivalents	\$ 212,912
Federal and state aid receivable	65,536
Due from other governments	247,444
Other receivables	112,235
Prepaid Expenses	8,436
Due from other	18,323
Total Current Assets	<u>664,886</u>

Furniture and Equipment

Land	122,500
Building	7,320,395
Building improvements	7,122
Furniture and equipment	464,703
Total	<u>7,914,720</u>
Less accumulated depreciation	449,813
Net Furniture and Equipment	<u>7,464,907</u>

Other Assets

Deferred financing costs, net	453,525
Bond trust accounts - restricted	1,040,550
Total Other Assets	<u>1,494,075</u>

TOTAL ASSETS	\$ 9,623,868
---------------------	---------------------

LIABILITIES AND NET ASSETS

Current Liabilities

Current portion of long-term debt	\$ 75,000
Accounts payable	37,617
Accrued liabilities	435,208
Due to other governments	8,700
Deferred revenue	4,250
Total Current Liabilities	<u>560,775</u>

Long-Term Liabilities

Bonded mortgage payable	7,570,000
Note payable - subordinated debt	397,500
Refundable advance	728,313
Total Long-term Liabilities	<u>8,695,813</u>

Net Assets

Unrestricted	164,727
Temporarily restricted	202,553
Total Net Assets	<u>367,280</u>

TOTAL LIABILITIES AND NET ASSETS	\$ 9,623,868
---	---------------------

See accompanying notes to financial statements.

**BRIGHTER CHOICE CHARTER MIDDLE SCHOOL FOR BOYS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2013**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
REVENUE, GAINS, AND OTHER SUPPORT			
Public School Districts:			
Student enrollment	\$ 2,140,505	\$ -	\$ 2,140,505
Federal aid	293,450	-	293,450
Contributions	11,600	-	11,600
Rental income	50,000	-	50,000
Other income	24,682	-	24,682
Assets released from restrictions	50,625	(50,625)	-
Total Revenues, Gains and Other Support	<u>2,570,862</u>	<u>(50,625)</u>	<u>2,520,237</u>
EXPENSES			
Program Services:			
Regular education	1,527,359	-	1,527,359
Special education	173,196	-	173,196
Other programs	260,978	-	260,978
Supporting Services:			
Management and general	1,263,051	-	1,263,051
Total Expenses	<u>3,224,584</u>	<u>-</u>	<u>3,224,584</u>
Change in Net Assets	(653,722)	(50,625)	(704,347)
Net Assets, June 30, 2012	<u>818,449</u>	<u>253,178</u>	<u>1,071,627</u>
Net Assets, June 30, 2013	<u>\$ 164,727</u>	<u>\$ 202,553</u>	<u>\$ 367,280</u>

See accompanying notes to financial statements.

BRIGHTER CHOICE CHARTER MIDDLE SCHOOL FOR BOYS
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2013

Cash Flows From Operating Activities	
Change in net assets	\$ (704,347)
Adjustments to reconcile change in net assets to net cash used by operating activities:	
Depreciation	319,532
Amortization	15,744
Bad debt expense	32,029
Amortization of loan discount, reported as a component of interest expense	50,625
(Increase) Decrease in assets:	
Federal and state aid receivable	144,916
Due from other governments	(207,255)
Other receivables	399
Prepaid expenses	(8,436)
Due from other	80,330
Increase (Decrease) in liabilities:	
Accounts payable	(14,614)
Accrued liabilities	251,336
Due to other governments	(75,804)
Deferred revenue	4,250
Net Cash Used in Operating Activities	<u>(111,295)</u>
Cash Flows From Investing Activities	
Purchase of property and equipment	<u>(42,356)</u>
Cash Flows From Financing Activities	
Deposits to bond trust accounts, restricted	(220,063)
Disbursements from bond trust accounts, restricted	510,867
Net Cash Provided in Financing Activities	<u>290,804</u>
Net increase in Cash and Cash Equivalents	137,153
Cash and Cash Equivalents, June 30, 2012	<u>75,759</u>
Cash and Cash Equivalents, June 30, 2013	<u><u>\$ 212,912</u></u>
Supplemental Information:	
Cash paid for interest	<u><u>\$ 428,967</u></u>

See accompanying notes to financial statements.

BRIGHTER CHOICE CHARTER MIDDLE SCHOOL FOR BOYS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

1. ORGANIZATION

Brighter Choice Charter Middle School for Boys (the School) is a non-for-profit corporation, which was formed in January 2010 to operate a charter school in the City of Albany, New York. The school was established to provide a quality educational alternative for at-risk middle school students in the city.

Brighter Choice Charter School for Boys provides a broad and rigorous liberal arts education, including instruction on phonics-based reading, traditional mathematics, science, visual and performing arts, American and world history, and physical education.

A provisional charter, valid for five years, was granted to the School by the University of the State of New York pursuant to Article 56 of the Education Law of the State of New York. The school began providing educational services in August 2010. As of June 30, 2013, the school had an enrollment of 148 students in 5th - 7th grades. The provisional charter allows for an additional grade to be added in each subsequent year until the School reaches grades 5 to 8.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The accompanying financial statements were prepared on the accrual basis of accounting.

Financial Statement Presentation

The financial statement presentation follows generally accepted accounting principles for not-for-profit organizations with information regarding financial position and activities as being reported according to three classes of net assets: unrestricted, temporarily restricted, or permanently restricted. The three classes are differentiated by donor restrictions.

Unrestricted Net Assets - Net assets that are not subject to donor-imposed stipulations.

Temporarily Restricted Net Assets - Net assets subject to donor-imposed stipulations that expire by the passage of time or can be fulfilled or removed by actions pursuant to those stipulations. Temporarily restricted net assets consist of contributions restricted by donors, which have not yet been completed, and are not permanently restricted.

Permanently Restricted Net Assets - Net assets subject to donor-imposed stipulations that they be maintained permanently, thereby restricting the use of principal. Usually, donor stipulations allow part or all of the income earned to be used currently for a restricted purpose. There were no permanently restricted net assets at June 30, 2013.

Cash and Cash Equivalents

The School's cash and cash equivalents consist of cash on hand and demand deposits. For the purposes of the statement of cash flows, the School considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents.

BRIGHTER CHOICE CHARTER MIDDLE SCHOOL FOR BOYS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Receivables

Receivables are carried at original invoice amount less an estimate made for doubtful receivables based on a review of all outstanding amounts on a monthly basis. Management determines the allowance for doubtful accounts by identifying troubled accounts and by using historical experience applied to an aging of accounts. Receivables are written off when deemed uncollectible. Recoveries of accounts previously written off are recorded when received. A receivable is considered past due if any portion of the receivable balance is outstanding for more than 90 days. Management considers all receivables to be fully collectible. Accordingly, no allowance for doubtful accounts is required.

Property, Plant and Equipment

Property, plant and equipment are stated at cost. Donations of property and equipment are recorded as support at their estimated fair values at time of donation. Expenditures for acquisitions, renewals, and betterments are capitalized, whereas maintenance and repair costs are expensed as incurred. When equipment is retired or otherwise disposed of, the appropriate accounts are relieved of costs and accumulated depreciation and any resultant gain or loss is credited or charged to the changed in net assets.

Gifts of land, buildings, equipment and other long-lived assets are also reported as unrestricted revenue and net assets, unless subject to time restrictions. Absent explicit donor stipulations for the time long-lived assets must be held, expirations of restrictions resulting in reclassification of temporarily restricted net assets as unrestricted net assets are reported when the long-lived assets are placed in service.

Depreciation of equipment is computed using the straight-line method over the following estimated useful lives:

	<u>Years</u>
Building	30
Building improvements	20
Furniture and Equipment	3-20

Depreciation expense was \$319,532 for the year ended June 30, 2013.

Revenue Recognition

A substantial portion of the School's revenue and related receivables is derived from its arrangement with the Albany City School District, which reimburses the School based on per capita enrollment. These revenues are recognized ratably over the related school year during which they are earned.

Revenue from other governmental sources generally represents various entitlements and is recognized as earned as allowable expenditures are incurred.

BRIGHTER CHOICE CHARTER MIDDLE SCHOOL FOR BOYS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Grant Revenue and Deferred Revenue

Grant revenue is recognized as revenue in the period in which it is spent. Amounts received under these grants that have not yet been spent are recorded as deferred revenue.

Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor imposed restrictions.

The School reports grants of cash and other assets as restricted support if they are received with stipulations that limit their use. When a 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.

The School reports restricted grants as unrestricted support whenever the restrictions are met in the same year the grants are received.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Income Taxes

The School is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code, and the School is exempt from state income tax. The School has been classified as a publicly-supported organization that is not a private foundation under Section 509(a) of the Code.

Under Accounting Standards Codification (ASC) Section 740, the tax-exempt status of a tax-exempt entity is an uncertain tax position, since events could potentially occur that jeopardize tax exempt status. Management is not aware of any events that could jeopardize tax exempt status, however to be conservative taxes were paid on the rental income and tax expense has been recorded in these financial statements.

Forms 990 filed by the School are subject to examination by the Internal Revenue Service up to three years from the extended due date of each return. Forms 990 filed by the School for the fiscal years ended June 30, 2012 and 2011, respectively, are subject to examination. There are currently no audits for these tax periods in progress.

Advertising

The School expenses advertising costs as incurred. Advertising costs for the year ended June 30, 2013 was \$3,298.

BRIGHTER CHOICE CHARTER MIDDLE SCHOOL FOR BOYS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Allocation of Expenses

Directly identifiable expenses are charged to program and supporting services. Expenses related to more than one function are charged to program and supporting services using specific allocation methods. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of School.

3. DUE FROM OTHER

The School along with its companion charter school, Brighter Choice Charter Middle School for Girl's, share program and supporting services costs. The joint costs are allocated equally except for costs associated for the specific school. Net joint costs due from Brighter Choice Charter Middle School for Girls, was \$18,323 as of June 30, 2013.

4. LONG-TERM LIABILITIES

The School together with the Brighter Choice Middle School for Girls (Girl's School) jointly incurred the following long-term obligations to acquire the facility used by both School and the Girl's School. The School recorded 50% of the total cost of the facility acquisition as well as 50% of the obligations from installment purchase agreements.

Bonded Mortgage Payable

The School's facility was acquired through financing provided by the Industrial Development Authority of the City of Phoenix, Arizona Education Facility Revenue Bonds, Series 2012 (IDA). The School acquired the facility from the IDA through a loan agreement which provides for the School to make installment payments in amount sufficient to pay the principal on and interest on the bonds when due. Under the loan agreement, the School and the Girl's School are jointly and severally obligated to make the installment purchase payments. The loan agreement is collateralized by a first mortgage and security interest the School's land, building and equipment.

Maturities, remaining principal amounts and interest rate of the bonds (and underlying loan agreement), as allocated to the School are as follows:

Series 2012 bonds, due July 2042, interest payments due semi-annually at 7.5%, principal payments due annually.	\$ 7,570,000
Current portion on bonded mortgage payable	<u>-</u>
Total Long-Term Bonded Mortgage Payable	<u>\$ 7,570,000</u>

The bonded mortgage loan agreement includes certain financial statement covenants for maintaining a debt service coverage ratio of at least 1.1 to 1.0 as measured annually and a liquidity requirement for maintaining a days cash on of not less than seven days as measured semiannually. Both covenants commence with fiscal year ending June 30, 2013.

**BRIGHTER CHOICE CHARTER MIDDLE SCHOOL FOR BOYS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

4. LONG-TERM LIABILITIES

Bonded Mortgage Payable

The School provided the bondholder and bond trustee with the School's calculation of the June 30, 2013 debt service coverage ratio and liquidity requirement based on industry standards for tax-exempt revenue bonds. The bondholder and bond trustee accepted the School's method of calculation of the debt service coverage ratio and liquidity requirement for the year ended June 30, 2013.

Note Payable - Subordinated Debt

In conjunction with the financing provided by the IDA, the School entered into a subordinated loan agreement with the Charter School Financing Partnership, LLC, a Delaware limited liability company. The School has agreed that the subordinated loan shall be paid out of the funds transferred to the Subordinate Loan Repayment Fund (see Note 6) from the School's educational aid payments. The Charter School Financing Partnership, LLC grants the IDA and the Wells Fargo Bank as Trustee a security interest in the Subordinate Loan Repayment Fund.

Principal amounts and interest rate of the note payable - subordinated debt, as allocated to the School are as follows:

Charter School Financing Partnership, LLC. subordinated note payable, 0% interest, annual principal payments of \$75,000 commencing on July 15, 2013, net of unamortized discount of \$202,500 (effective interest rate 7.5%), with a face amount of \$675,000.	\$ 472,500
Current portion on note payable - subordinated debt	<u>(75,000)</u>
Total Long-Term Portion Note Payable - Subordinated Debt	<u>\$ 397,500</u>

Amortization of the discount is reported in the Statement of Activities as interest expense. Imputed interest expense was \$50,625 for the year ended June 30, 2013. Interest expense was \$618,375 for the year ended June 30, 2013.

The following is a summary of minimum maturing on all debt of the School for the next five fiscal years as follows:

<u>Year</u>	<u>Principal</u>
2014	\$ 75,000
2015	75,000
2016	110,000
2017	112,500
2018	117,500
Thereafter	<u>7,755,500</u>
Total	<u>\$ 8,245,500</u>

BRIGHTER CHOICE CHARTER MIDDLE SCHOOL FOR BOYS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

4. LONG-TERM LIABILITIES

Refundable Advance

In conjunction with the financing provided by the IDA, the School entered into a credit enhancement agreement with the Charter School Financing Partnership, LLC (CSFP) a Delaware limited liability company. To induce the IDA to enter into the loan agreement with the School, CSFP provided a refundable advance to secure payment and performance of certain obligations of the School under the loan agreement with the IDA to the extent that the School would otherwise be unable to fund such obligations. Pursuant to the Reserve Fund Agreement between the IDA, Wells Fargo Bank, National Association (Trustee) and CSFP, CSFP provided a refundable advance of \$728,313, for deposit into the Debt Service Reserve Fund (Note 6). If on any date of the payment of principal of interest due on the IDA Bonded Mortgage Payable, there are insufficient funds to make the required payments, the Trustee is authorized under the Reserve Fund Agreement to withdraw any such deficiency amount from the Debt Service Reserve Fund. The amount of any deficiency withdrawn from the Debt Serve Reserve Fund shall be treated as a loan, and shall be payable and shall be repaid by the School to CSFP by deposits into the Debt Service Reserve Fund. The credit enhancement agreement shall automatically terminate on the date on which the principal, interest, and other amounts due and payable with respect to the IDA Series 2012 Bonds are fully paid. Upon the termination of the credit enhancement agreement all funds on deposit in the Debt Service Reserve Fund shall be returned to CSFP.

At June 30, 2013, there were no deficiency in the Debt Service Reserve Fund and accordingly, there is no loan between the School and CSFP.

5. DEFERRED FINANCING COSTS, NET

Deferred financing costs consist of bond closing costs incurred in connection with the Education Facility Revenue Bonds issued by the Industrial Development Authority of the City of Phoenix, Arizona.

Bond closing costs are amortized using the straight-line method over the term of the obligation. Amortization expense was \$15,744 for the year ended June 30, 2013.

Estimated amortization expense is \$15,774 for each of the next five years.

6. BOND TRUST ACCOUNTS - RESTRICTED

The School has entered into a custody agreement with Wells Fargo Bank, National Association, as Trustee for the holders of the Industrial Development Authority of the City of Phoenix, Arizona, Education Facility Revenue Bonds, Series 2012. The reserve accounts represent funds held by Wells Fargo Bank in the name of the School. The School will direct educational aid payments to be deposited with the Custodian. The Custodian will pay the Trustee, for deposits into the Bond Fund, an amount equal to a proportionate share of the next interest payment and principal payment on the Bonds for which funds have not already been provided. The Custodian will also pay to the Trustee from the amounts received from the School's educational aid payments amounts as calculated by the Trustee for deposited into the School's Rebate Fund, Subordinate Loan Repayment Fund, Expense Fund and the Repair and Replacement Fund. Any funds remaining with the Custodian following such transfers will be transferred to the School.

BRIGHTER CHOICE CHARTER MIDDLE SCHOOL FOR BOYS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

6. BOND TRUST ACCOUNTS - RESTRICTED

Bond trust accounts restricted consist of the following:

Debt service reserves fund	\$ 728,313
Bond fund	283,875
Subordinated loan fund	8,237
Expense fee fund	<u>20,125</u>
Total	<u>\$ 1,040,550</u>

The underlying investments in the bond trust accounts at June 30, 2013 consist of cash and money market funds.

7. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at June 30, 2013 are available for the following uses:

Purpose restriction - purchase of musical instruments	\$ 53
Purpose and time restriction - note payable subordinated debt	<u>202,500</u>
Total	<u>\$ 202,553</u>

8. COMMITMENTS AND CONTINGENCIES

Building Lease Income

The School leases office space under a noncancelable operating lease with an initial lease term of five years and three months. The tenant shall have two five options to extend the terms of the lease. The following is a schedule by years of the future minimum rental under the lease at June 30, 2013.

2014	\$ 51,000
2015	52,020
2016	53,061
2017	54,122

Operating Equipment Lease

The School has entered into an operating lease for office equipment expiring in July 2014. Equipment lease expense for the year ended June 30, 2013 was \$5,183.

A summary of the future minimum operating lease payment is as follows:

2014	\$ 3,429
2015	272

BRIGHTER CHOICE CHARTER MIDDLE SCHOOL FOR BOYS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

9. FEDERAL AND STATE AID

The School has received grants, which are subject to audit by agencies of the State and Federal governments. Such audits may result in disallowances and a request for a return of funds. Management believes disallowances, if any, will be immaterial.

A summary of grant support that represents the portion of the grants utilized for operations and to acquire the School's facilities, equipment and instructional materials is as follows:

New York State Education Department	
Title I	\$ 81,919
Title IIA	5,594
School Lunch Program	88,915
CSP Grant	<u>117,022</u>
Total	<u>\$ 293,450</u>

10. EMPLOYEE RETIREMENT PLAN

The School has a 401(k) retirement plan, which is funded by contributions from both the School and its employees. The School's contribution ranges from 2% to 4% of eligible employees' compensation, dependent on the eligible employees' years of service. Additionally, there is profit sharing discretionary employer contribution of 2% of eligible contribution. Pension expense was \$44,153 for the year ended June 30, 2013.

11. CONCENTRATIONS

The School receives a substantial portion of its funding from school districts where the School's students reside. One school district constituted 70% of total revenue and support and approximated 44% of the due from other governments for the year ended June 30, 2013.

12. RISK AND UNCERTANITIES

The School maintains cash balances in a financial institution located in the northeast. Accounts at this institution are insured, up to certain limits, by the Federal Deposit Insurance Corporation (FDIC). At times, the School has bank deposits in excess of amounts insured by the FDIC.

13. SUBSEQUENT EVENTS

The Schools management has evaluated all events subsequent to the statement of financial position date of June 30, 2013 through October 25, 2013, which is the date these financial statements were available to be issued, and have determined that there are no subsequent events that requires disclosure.

BRIGHTER CHOICE CHARTER MIDDLE SCHOOL FOR BOYS
SCHEDULE OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2013

	<u>Program Services</u>			<u>Supporting Services</u>	<u>Totals</u>
	<u>Regular Education</u>	<u>Special Education</u>	<u>Other Program</u>	<u>Management and General</u>	
Salaries	\$ 829,940	\$ 109,358	\$ 50,921	\$ 332,132	\$ 1,322,351
Employee benefits	205,955	27,138	12,636	82,421	328,150
	<u>1,035,895</u>	<u>136,496</u>	<u>63,557</u>	<u>414,553</u>	<u>1,650,501</u>
Accounting	-	-	-	13,220	13,220
After school program	-	-	24,715	-	24,715
Amortization	-	-	-	15,744	15,744
Advertising	-	-	-	3,298	3,298
Bad debts	-	-	-	32,029	32,029
Bond fee expense	-	-	-	10,053	10,053
Contracted services	78,483	31,144	20,736	51,275	181,638
School lunch program	-	-	52,099	-	52,099
Field trips	9,842	-	-	-	9,842
Insurance	-	-	-	16,316	16,316
Interest	-	-	-	618,375	618,375
Legal	-	-	-	386	386
Leased equipment	-	-	-	5,183	5,183
Repairs and maintenance	14,775	255	1,362	1,652	18,044
Nurse supplies	-	-	308	-	308
Small equipment	1,578	-	-	-	1,578
Supplies and materials	58,404	238	-	28,847	87,489
Student services	9,248	-	-	-	9,248
Student uniforms	7,115	-	-	-	7,115
Student testing	15,516	-	-	-	15,516
Staff development	2,706	-	-	3,454	6,160
Telephone	-	-	-	12,347	12,347
Transportation	-	-	71,120	-	71,120
Utilities expense	32,145	554	2,963	3,594	39,256
Taxes	-	-	-	2,200	2,200
Miscellaneous expense	-	-	-	1,272	1,272
Expenses from Operations	<u>1,265,707</u>	<u>168,687</u>	<u>236,860</u>	<u>1,233,798</u>	<u>2,905,052</u>
Depreciation	<u>261,652</u>	<u>4,509</u>	<u>24,118</u>	<u>29,253</u>	<u>319,532</u>
Total Expenses	<u>\$ 1,527,359</u>	<u>\$ 173,196</u>	<u>\$ 260,978</u>	<u>\$ 1,263,051</u>	<u>\$ 3,224,584</u>

**INDEPENDENT AUDITOR'S 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**

Kevin J. McCoy, CPA
Thomas W. Donovan, CPA
Frank S. Venezia, CPA
James E. Amell, CPA
Carol A. Hausamann, CPA
Benjamin R. Lasher, CPA
Daniel J. Litz, CPA
Karl F. Newton, CPA
Kevin P. O'Leary, CPA
Timothy A. Reynolds, CPA
Leo A. Rigby, CPA

Thomas J. Ross, CPA
Heather D. Patten, CPA

To the Board of Directors of
Brighter Choice Charter Middle School for Boys

We have audited, 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, the financial statements of Brighter Choice Charter Middle School for Boys (the School), which comprise the statement of financial position as of June 30, 2013, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 25, 2013.

■
Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Brighter Choice Charter Middle School for Boys' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Brighter Choice Charter Middle School for Boys' internal control. Accordingly, we do not express an opinion on the effectiveness of Brighter Choice Charter Middle School for Boys' internal control.

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. *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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

11 British American Blvd.
Latham, NY 12110
Ph: 518-785-0134
Fx: 518-785-0299

111 Everts Avenue
Queensbury, NY 12804
Ph: 518-792-6596
Fx: 518-792-6635

■
Email:
webmaster@marvincpa.com
Web:
<http://www.marvincpa.com>
■

We did identify a certain deficiency in internal control described in the accompanying schedule of findings as item 2012-01 that we consider to be a significant deficiency.

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, 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*.

The School's response to the findings identified in our audit are described in the accompanying schedule of findings and responses. The School's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Marvin and Company, P.C.

Latham, NY
October 25, 2013

**BRIGHTER CHOICE CHARTER MIDDLE SCHOOL FOR BOYS
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2013**

Findings - Financial Statement Audit

2012-01 Audit Adjustments (Repeat Finding)

Finding

Based on audit procedures performed material financial misstatements were detected.

Effect

The financial statements of the Brighter Choice Charter Middle School for Boys were not presented fairly, in all material respects in accordance with U.S. generally accepted accounting principles.

Cause

Accounting adjustments for the recognition of grant revenue were not properly recorded resulting in grant revenue and grant receivables to be misstated.

Recommendations

We recommend that the Brighter Choice Charter Middle School for Boys continue to use its financial closing schedule that lists accounts that are to be reconciled prior to completing the School's quarterly internal financial statements. The School should review the closing schedule to ensure that all accounts where misstatements could occur have been identified and are included in the closing schedule.

Management's Response

Management agrees with the finding. Management has modified its quarterly and year-end closing schedules to list specific accrual accounts that must be reconciled quarterly. In addition, all grants will be reconciled prior to year-end to ensure that the grant revenue in the financial statements equals current year grant expenditures.