

Bronx Charter School for Excellence and Affiliate

Combined Financial Report

June 30, 2012

Contents

Independent Auditor's Report	1
Financial Statements:	
Combined Statements of Financial Position	2
Combined Statements of Activities	3
Combined Statements of Functional Expenses	4
Combined Statements of Cash Flows	5
Notes to Combined Financial Statements	6 - 11
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 <i>Government Auditing Standards</i>	12 - 13
Supplementary Information:	
Combining Statements of Financial Position	14
Combining Statements of Activities	15
Statements of Functional Expenses - Bronx Charter School for Excellence	16
Statements of Functional Expenses - Friends of Bronx Charter School for Excellence, Inc.	17



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, 2012, 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 2011 financial statements and in our report, dated October 18, 2011, 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 opinions.

In our opinion, the 2012 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, 2012, 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.

In accordance with *Government Auditing Standards*, we have also issued our report, dated October 26, 2012, 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.

Our audit was conducted for the purpose of forming an opinion on the basic combined financial statements taken as a whole. The supplementary combining information on pages 14 through 17 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 and is not a required part of the basic combined 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 basic combined financial statements. The combining information has been subjected to the auditing procedures applied in the audit of the basic combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic combined financial statements or to the basic combined 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 basic combined financial statements as a whole.

McGladrey LLP

New York, New York
October 26, 2012

Bronx Charter School for Excellence and Affiliate

Combined Statements of Financial Position

June 30, 2012

(with summarized comparative information as of June 30, 2011)

	2012	2011
ASSETS		
Cash and Cash Equivalents	\$ 1,496,784	\$ 2,105,088
Grants and Other Receivables (Note 2)	304,683	149,908
Prepaid Expenses and Other Assets	217,141	255,228
Deferred Leasing Commissions	322,232	336,242
Property and Equipment, net (Note 3)	<u>3,054,179</u>	<u>2,144,370</u>
Total assets	<u>\$ 5,395,019</u>	<u>\$ 4,990,836</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	\$ 826,949	\$ 605,032
Deferred rent (Note 4)	<u>3,429,307</u>	<u>3,033,156</u>
Total liabilities	<u>4,256,256</u>	<u>3,638,188</u>
Commitments and Contingencies (Notes 4 and 8)		
Net Assets:		
Unrestricted	1,130,473	1,352,648
Temporarily restricted (Note 7)	<u>8,290</u>	<u>-</u>
Total net assets	<u>1,138,763</u>	<u>1,352,648</u>
Total liabilities and net assets	<u>\$ 5,395,019</u>	<u>\$ 4,990,836</u>

See Notes to Combined Financial Statements.

Bronx Charter School for Excellence and Affiliate

Combined Statements of Activities

Year Ended June 30, 2012

(with summarized comparative information for the year ended June 30, 2011)

	2012			2011
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>	<u>Summarized Comparative Total</u>
Operating Revenue:				
State and local per pupil operating revenue (Note 1)	\$ 6,440,262	\$ -	\$ 6,440,262	\$ 5,589,867
Government grants and contracts (Note 1)	363,985	-	363,985	226,049
Total operating revenue	<u>6,804,247</u>	<u>-</u>	<u>6,804,247</u>	<u>5,815,916</u>
Operating Expenses:				
Program services - School operations	5,963,563	-	5,963,563	4,689,007
General and administrative (Note 4)	1,138,631	-	1,138,631	1,015,698
Total operating expenses (Notes 4, 5 and 6)	<u>7,102,194</u>	<u>-</u>	<u>7,102,194</u>	<u>5,704,705</u>
(Deficit) surplus from operations	<u>(297,947)</u>	<u>-</u>	<u>(297,947)</u>	<u>111,211</u>
Support and Other Revenue:				
Contributions (Note 1):				
Foundations	15,000	-	15,000	32,500
Individuals	47,638	-	47,638	37,567
Donated goods or services	11,794	-	11,794	1,353
Special events	99,781	8,290	108,071	70,177
Interest income	4	-	4	2,557
Miscellaneous income	12,940	-	12,940	14,396
Fund-raising expenses (inclusive of direct costs amounting to \$35,468, and \$35,867, respectively, from special event)	(111,385)	-	(111,385)	(41,424)
Total support and other revenue	<u>75,772</u>	<u>8,290</u>	<u>84,062</u>	<u>117,126</u>
Change in net assets	<u>(222,175)</u>	<u>8,290</u>	<u>(213,885)</u>	<u>228,337</u>
Net Assets:				
Beginning	1,352,648	-	1,352,648	1,124,311
Ending	<u>\$ 1,130,473</u>	<u>\$ 8,290</u>	<u>\$ 1,138,763</u>	<u>\$ 1,352,648</u>

See Notes to Combined Financial Statements.

Bronx Charter School for Excellence and Affiliate

Combined Statements of Functional Expenses

Year Ended June 30, 2012

(with summarized comparative information for the year ended June 30, 2011)

	Program Services - School Operations	Supporting Services			2012 Total	2011 Summarized Comparative Total
		General and Administrative	Fund- Raising	Total		
Personnel expenses:						
Payroll	\$ 3,164,908	\$ 571,250	\$ 42,869	\$ 614,119	\$ 3,779,027	\$ 2,704,807
Payroll taxes and benefits	686,860	123,955	9,303	133,258	820,118	580,221
Rent (Note 4)	881,967	157,412	11,928	169,340	1,051,307	1,038,897
Academic programs	337,836	-	-	-	337,836	216,096
Property development studies	-	30	-	30	30	77,293
Facility maintenance and security	171,864	30,674	2,324	32,998	204,862	230,955
Utilities	95,665	17,074	1,294	18,368	114,033	108,357
Consultants and substitute teachers	5,652	19,131	-	19,131	24,783	58,709
Professional fees	102,588	108,291	1,228	109,519	212,107	181,378
Depreciation and amortization	203,320	50,301	2,750	53,051	256,371	200,672
Insurance	32,860	8,022	444	8,466	41,326	34,919
Office and other	138,422	27,216	1,861	29,077	167,499	119,786
Telephone and Internet	12,497	2,230	169	2,399	14,896	15,344
Real estate taxes	82,058	14,645	1,110	15,755	97,813	99,737
Equipment/software purchases and rental	47,066	8,400	637	9,037	56,103	39,279
Fund-raising expenses	-	-	35,468	35,468	35,468	35,867
Bad debt expense	-	-	-	-	-	3,812
	<u>\$ 5,963,563</u>	<u>\$ 1,138,631</u>	<u>\$ 111,385</u>	<u>\$ 1,250,016</u>	<u>\$ 7,213,579</u>	<u>\$ 5,746,129</u>

See Notes to Combined Financial Statements.

Bronx Charter School for Excellence and Affiliate

Combined Statements of Cash Flows

Year Ended June 30, 2012

(with summarized comparative information for the year ended June 30, 2011)

	2012	2011
Cash Flows From Operating Activities:		
Change in net assets	\$ (213,885)	\$ 228,337
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	256,371	200,672
Deferred rent	396,151	396,151
Bad debt expense	-	3,812
Changes in operating assets and liabilities:		
(Increase) decrease in grants and other receivables	(154,775)	7,969
Decrease (increase) in prepaid expenses and other assets	38,087	(125,595)
Increase in accounts payable and accrued expenses	153,675	181,034
Decrease in due to DOE	-	(26,358)
	<u>475,624</u>	<u>866,022</u>
Net cash provided by operating activities		
Cash Flows From Investing Activities:		
Payments made on leasehold improvements	-	(404,014)
Purchases of property and equipment	<u>(1,083,928)</u>	<u>(104,681)</u>
	<u>(1,083,928)</u>	<u>(508,695)</u>
Cash used in investing activities		
Cash Flows Used In Financing Activity - principal payments on note payable		
	<u>-</u>	<u>(15,291)</u>
	<u>(608,304)</u>	<u>342,036</u>
Net (decrease) increase in cash and cash equivalents		
Cash and Cash Equivalents:		
Beginning	<u>2,105,088</u>	<u>1,763,052</u>
Ending	<u>\$ 1,496,784</u>	<u>\$ 2,105,088</u>
Supplemental Disclosure of Noncash Investing Activities:		
Incurrence of accounts payable for construction-in-progress	<u>\$ 68,242</u>	<u>\$ -</u>

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 2012, the School operated classes for students in kindergarten and grades 1 through 7.

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 2012, Friends was making new efforts to raise additional funds to support the School. For the period from fiscal 2007 through fiscal 2010, Friends continued to repay outstanding loan balances taken out to fund the option premium deposit.

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 (GAAP). Accordingly, such information should be read in conjunction with the Organization's combined financial statements for the year ended June 30, 2011, from which the summarized information was derived.

Use of Estimates: The preparation of financial statements in conformity with GAAP 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.

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.

Bronx Charter School for Excellence and Affiliate

Notes to Combined Financial Statements

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

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 \$5,000. 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, 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 (the DOE) 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 as it does not meet the criteria for recognition.

During the years ended June 30, 2012 and 2011, contributions from board members were approximately \$54,000 and \$27,000, respectively; of these amounts, \$7,500 and \$0 were included in grants and other receivables, respectively.

Bronx Charter School for Excellence and Affiliate

Notes to Combined Financial Statements

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

Tax Status: 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, 2012 and 2011, the School and Friends did not owe any UBIT.

Management evaluated the Organization's tax positions for all open tax years and has concluded that the Organization had taken no uncertain tax positions that require adjustment to the financial statements to comply with the provisions of Accounting Standards Codification 740, *Accounting for Income Taxes*. Generally, the Organization is no longer subject to income tax examinations by U.S. federal, state or local tax authorities for years before 2009, which is the standard statute of limitations look-back period.

Reclassifications: Certain 2011 amounts have been reclassified, where appropriate, to conform to the financial statement presentation used in 2012. Such reclassifications did not have any effect on total net assets or changes therein.

Note 2. Grants and Other Receivables

As of June 30, 2012 and 2011, grants and other receivables amounted to \$304,683 and \$149,908, respectively. Grants and other receivables include receivables from government contracts and unconditional promises to give. These receivables are due within one year.

All grants and other receivables are deemed collectible when due. Accordingly, no allowance for doubtful grants 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, consists of the following at June 30, 2012 and 2011:

	<u>2012</u>	<u>2011</u>	<u>Estimated Useful Life</u>
Land	\$ 178,958	\$ -	
Leasehold improvements	2,411,762	2,411,762	Shorter of lease term or 30 years
Building	715,830	-	39 years
Computer and other equipment	254,280	174,162	5 years
Furniture and fixtures	180,957	146,912	5 years
Construction-in-progress	143,219	-	
	<u>3,885,006</u>	<u>2,732,836</u>	
Less accumulated depreciation and amortization	<u>(830,827)</u>	<u>(588,466)</u>	
	<u>\$ 3,054,179</u>	<u>\$ 2,144,370</u>	

Bronx Charter School for Excellence and Affiliate

Notes to Combined Financial Statements

Note 3. Property and Equipment, Net (Continued)

On June 24, 2011, the Organization entered into a contractual agreement (the Agreement) with an unrelated third party to purchase the land and building situated at 2000 Benedict Avenue, Bronx, New York, which is adjacent to its elementary school. The purchase price was \$875,000 and the Organization intends to use this facility for additional educational space. This purchase is included in property and equipment, net in the statement of financial position as of June 30, 2012.

Note 4. Commitments

Operating Leases: 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 four-year operating lease agreement not cancelable for three 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.

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>
2013	\$ 506,250	\$ 148,905	\$ 655,155
2014	506,250	148,905	655,155
2015	506,250	12,409	518,659
2016	683,438	-	683,438
2017	683,438	-	683,438
Thereafter	<u>21,298,909</u>	<u>-</u>	<u>21,298,909</u>
	<u>\$ 24,184,535</u>	<u>\$ 310,219</u>	<u>\$ 24,494,754</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. Rent expenses amounted to \$1,051,307 and \$1,038,897 for the fiscal years ended June 30, 2012 and 2011, respectively, which includes noncash deferred rent adjustments of \$396,151 for the fiscal years ended June 30, 2012 and 2011.

Bronx Charter School for Excellence and Affiliate

Notes to Combined Financial Statements

Note 4. Commitments (Continued)

Building Design Project Commitment: The School entered into a contractual arrangement (the contract) for architectural, design and other services for the expansion and renovation of the 1960 Benedict Avenue building, in conjunction with the potential bond issuance and related construction as discussed in Note 9. The contract amount is \$750,000, of which approximately \$97,000 of costs have been incurred through June 30, 2012. The contract cost of \$750,000 is an estimate based on a percentage of the current construction estimate.

The final cost of the contract will be determined when final construction plans are completed. If the construction plans are abandoned, the School will only be liable for actual time and expense costs incurred.

Note 5. 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, 2012 and 2011, employer matching contributions in connection with this plan amounted to approximately \$80,000 and \$62,000, respectively, net of forfeitures.

Note 6. 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 they fall 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 programs including but not limited to annual mailings, donor meetings and events.

Note 7. Temporarily Restricted Net Assets

Temporarily restricted net assets of \$8,290 and \$0 represent purpose-restricted contributions as of June 30, 2012 and 2011, respectively.

Note 8. 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.

Bronx Charter School for Excellence and Affiliate

Notes to Combined Financial Statements

Note 9. Subsequent Events

The School entered in to an engagement letter (the "Agreement") with an underwriter for the purpose of structuring taxable and tax-exempt securities (the "Bonds"). The proceeds of the proposed Bonds, if issued, will be used to finance (i) the acquisition, construction, equipping and renovation of the School (ii) capitalized interest on the proposed Bonds and (iii) costs of issuance of the proposed Bonds. The proposed Bonds referred to above will have a preliminary par amount of approximately \$20,460,000 and are expected to be structured as fixed rate bonds to be sold in two series with one or more terms. The underwriting fee will be 1.75% of the par amount of the proposed bonds, with the School agreeing to pay all appropriate costs of issuance associated with this financing. This Agreement is not a final commitment by the underwriter until certain events have occurred, including final approval by the School's Board of Directors.

The Organization evaluated events occurring after the date of the combined financial statements to consider whether or not the impact of such events need to be reflected and/or disclosed in the financial statements. Such evaluation was performed through October 26, 2012, the date the combined financial statements were available to be issued.



**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***

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, 2012, and have issued our report thereon dated October 26, 2012. 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

Management of the Organization is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Organization's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

A *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 was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to the management of the Organization in a separate letter dated October 26, 2012.

This report is intended solely for the information and use of the finance committee, board of trustees, management, the New York State Department of Education 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 LLP

New York, New York
October 26, 2012

Bronx Charter School for Excellence and Affiliate

Supplementary Information

Combining Statements of Financial Position

June 30, 2012

(with summarized comparative information as of June 30, 2011)

See Auditor's Report

	2012			2011	
	Bronx Charter School for Excellence	Friends of Bronx Charter School for Excellence, Inc.	Eliminations	Total	Total
ASSETS					
Cash and Cash Equivalents	\$ 1,406,063	\$ 90,721	\$ -	\$ 1,496,784	\$ 2,105,088
Grants and Other Receivables	297,183	7,500	-	304,683	149,908
Due From Affiliate	64,301	-	(64,301)	-	-
Prepaid Expenses and Other Assets	215,702	1,439	-	217,141	255,228
Deferred Leasing Commissions	-	322,232	-	322,232	336,242
Property and Equipment, net	<u>3,054,179</u>	<u>-</u>	<u>-</u>	<u>3,054,179</u>	<u>2,144,370</u>
Total assets	<u>\$ 5,037,428</u>	<u>\$ 421,892</u>	<u>\$ (64,301)</u>	<u>\$ 5,395,019</u>	<u>\$ 4,990,836</u>
LIABILITIES AND NET ASSETS					
Liabilities:					
Accounts payable and accrued expenses	\$ 826,949	\$ -	\$ -	\$ 826,949	\$ 605,032
Deferred rent	3,429,307	-	-	3,429,307	3,033,156
Due to affiliate	<u>-</u>	<u>64,301</u>	<u>(64,301)</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>4,256,256</u>	<u>64,301</u>	<u>(64,301)</u>	<u>4,256,256</u>	<u>3,638,188</u>
Net Assets:					
Unrestricted	772,882	357,591	-	1,130,473	1,352,648
Temporarily restricted	<u>8,290</u>	<u>-</u>	<u>-</u>	<u>8,290</u>	<u>-</u>
Total net assets	<u>781,172</u>	<u>357,591</u>	<u>-</u>	<u>1,138,763</u>	<u>1,352,648</u>
Total liabilities and net assets	<u>\$ 5,037,428</u>	<u>\$ 421,892</u>	<u>\$ (64,301)</u>	<u>\$ 5,395,019</u>	<u>\$ 4,990,836</u>

Bronx Charter School for Excellence and Affiliate

Supplementary Information

Combining Statements of Activities

Year Ended June 30, 2012

(with summarized comparative information for the year ended June 30, 2011)

See Auditor's Report

	2012		2011	
	Bronx Charter School for Excellence	Friends of Bronx Charter School for Excellence, Inc.	Total	Summarized Comparative Total
Operating Revenue:				
State and local per pupil operating revenue	\$ 6,440,262	\$ -	\$ 6,440,262	\$ 5,589,867
Government grants and contracts	363,985	-	363,985	226,049
Total operating revenue	6,804,247	-	6,804,247	5,815,916
Operating Expenses:				
Program services - School operations	5,963,563	-	5,963,563	4,689,007
General and administrative	1,105,291	33,340	1,138,631	1,015,698
Total operating expenses	7,068,854	33,340	7,102,194	5,704,705
(Deficit) surplus from operations	(264,607)	(33,340)	(297,947)	111,211
Support and Other Revenue:				
Contributions:				
Foundations	15,000	-	15,000	32,500
Individuals	24,374	23,264	47,638	37,567
Donated goods or services	11,794	-	11,794	1,353
Special events	3,795	104,276	108,071	70,177
Interest income	4	-	4	2,557
Miscellaneous income	12,940	-	12,940	14,396
Fund-raising expenses (inclusive of direct costs amounting to \$35,468 and \$35,867, respectively, from special event)	(75,838)	(35,547)	(111,385)	(41,424)
Total support and other revenue	(7,931)	91,993	84,062	117,126
Change in net assets	(272,538)	58,653	(213,885)	228,337
Net Assets:				
Beginning	1,053,710	298,938	1,352,648	1,124,311
Ending	<u>\$ 781,172</u>	<u>\$ 357,591</u>	<u>\$ 1,138,763</u>	<u>\$ 1,352,648</u>

Bronx Charter School for Excellence and Affiliate

Supplementary Information

Statements of Functional Expenses - Bronx Charter School for Excellence
 Year Ended June 30, 2012
 (with summarized comparative information for the year ended June 30, 2011)
 See Auditor's Report

	Program Services - School Operations	Supporting Services			2012 Total	2011 Summarized Comparative Total
		General and Administrative	Fund- Raising	Total		
Personnel expenses:						
Payroll	\$ 3,164,908	\$ 564,864	\$ 42,804	\$ 607,668	\$ 3,772,576	\$ 2,698,632
Payroll taxes and benefits	686,860	122,590	9,289	131,879	818,739	578,842
Rent	881,967	157,412	11,928	169,340	1,051,307	1,038,897
Academic programs	337,836	-	-	-	337,836	216,096
Property development studies	-	30	-	30	30	77,293
Facility maintenance and security	171,864	30,674	2,324	32,998	204,862	230,955
Utilities	95,665	17,074	1,294	18,368	114,033	108,357
Consultants and substitute teachers	5,652	19,131	-	19,131	24,783	58,709
Professional fees	102,588	101,538	1,228	102,766	205,354	174,653
Depreciation and amortization	203,320	36,291	2,750	39,041	242,361	186,662
Insurance	32,860	6,425	444	6,869	39,729	33,641
Office and other	138,422	23,987	1,861	25,848	164,270	117,186
Telephone and Internet	12,497	2,230	169	2,399	14,896	15,344
Real estate taxes	82,058	14,645	1,110	15,755	97,813	99,737
Equipment/software purchases and rental	47,066	8,400	637	9,037	56,103	39,279
Bad debt expense	-	-	-	-	-	3,812
	<u>\$ 5,963,563</u>	<u>\$ 1,105,291</u>	<u>\$ 75,838</u>	<u>\$ 1,181,129</u>	<u>\$ 7,144,692</u>	<u>\$ 5,678,095</u>

Bronx Charter School for Excellence and Affiliate

Supplementary Information

**Statements of Functional Expenses - Friends of Bronx Charter School for Excellence, Inc.
Year Ended June 30, 2012
(with summarized comparative information for the year ended June 30, 2011)
See Auditor's Report**

	Program Services - Support to Bronx Charter School for Excellence	Supporting Services			2012 Total	2011 Summarized Comparative Total
		General and Administrative	Fund- Raising	Total		
Personnel expenses:						
Payroll	\$ -	\$ 6,386	\$ 65	\$ 6,451	\$ 6,451	\$ 6,175
Payroll taxes and benefits	-	1,365	14	1,379	1,379	1,379
Professional fees	-	6,753	-	6,753	6,753	6,725
Depreciation and amortization	-	14,010	-	14,010	14,010	14,010
Insurance	-	1,597	-	1,597	1,597	1,278
Office and other	-	3,229	-	3,229	3,229	2,600
Fund-raising expenses	-	-	35,468	35,468	35,468	35,867
	<u>\$ -</u>	<u>\$ 33,340</u>	<u>\$ 35,547</u>	<u>\$ 68,887</u>	<u>\$ 68,887</u>	<u>\$ 68,034</u>