

Bronx Charter School for Excellence and Affiliate

Combined Financial Report

June 30, 2013

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Independent Auditor's Report

To the Board of Trustees
Bronx Charter School for Excellence
Bronx, New York

Report on the Combined Financial Statements

We have audited the accompanying combined financial statements of Bronx Charter School for Excellence and Affiliate, which comprise the combined statement of financial position as of June 30, 2013, and the related combined statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the combined financial statements.

Management's Responsibility for the Combined Financial Statements

Management is responsible for the preparation and fair presentation of these combined 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 combined 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 combined 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 combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined 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 combined 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 combined financial statements.

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

Opinion

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

Report on Summarized Comparative Information

We have previously audited Bronx Charter School for Excellence and Affiliate's 2012 combined financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 26, 2012. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2012, is consistent, in all material respects, with the audited combined financial statements from which it has been derived.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the combined financial statements as a whole. The supplementary combining information on pages 16 - 19 is presented for purposes of additional analysis and is not a required part of the 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 combined financial statements. The information has been subjected to the auditing procedures applied in the audit of the 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 combined financial statements or to the 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 combined 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 30, 2013 on our consideration of Bronx Charter School for Excellence and Affiliate's 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 Bronx Charter School for Excellence and Affiliate's internal control over financial reporting and compliance.

McGladrey LLP

New York, New York
October 30, 2013

Bronx Charter School for Excellence and Affiliate

Combined Statements of Financial Position

June 30, 2013

(with summarized comparative financial information as of June 30, 2012)

	2013	2012
ASSETS		
Cash and Cash Equivalents	\$ 2,673,392	\$ 1,496,784
Restricted Investments	16,829,074	-
Grants and Other Receivables (Note 2)	426,080	304,683
Prepaid Expenses and Other Assets	58,884	217,141
Deferred Leasing Commissions (Note 1)	-	322,232
Property and Equipment, net (Notes 3 and 4)	9,114,832	3,054,179
Bond Financing Costs, net (Note 4)	<u>1,582,018</u>	<u>-</u>
Total assets	<u>\$ 30,684,280</u>	<u>\$ 5,395,019</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	\$ 1,386,466	\$ 826,949
Bonds payable, net (Note 4)	26,097,459	-
Reserve for payment of debt service	1,540,000	-
Deferred rent	<u>-</u>	<u>3,429,307</u>
Total liabilities	<u>29,023,925</u>	<u>4,256,256</u>
Commitments and Contingency		
Net Assets:		
Unrestricted	1,410,355	1,130,473
Temporarily restricted (Note 8)	<u>250,000</u>	<u>8,290</u>
Total net assets	<u>1,660,355</u>	<u>1,138,763</u>
Total liabilities and net assets	<u>\$ 30,684,280</u>	<u>\$ 5,395,019</u>

See Notes to Combined Financial Statements.

Bronx Charter School for Excellence and Affiliate

Combined Statements of Activities

Year Ended June 30, 2013

(with summarized comparative financial information for the year ended June 30, 2012)

	2013			2012
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>	<u>Summarized Comparative Information Total</u>
Operating Revenue:				
State and local per pupil operating revenue (Note 1)	\$ 7,698,079	\$ -	\$ 7,698,079	\$ 6,440,262
Government grants and contracts (Note 1)	364,814	-	364,814	363,985
Total operating revenue	<u>8,062,893</u>	<u>-</u>	<u>8,062,893</u>	<u>6,804,247</u>
Operating Expenses:				
Program services - School operations	6,555,075	-	6,555,075	5,963,563
General and administrative	1,570,788	-	1,570,788	1,138,631
Total operating expenses	<u>8,125,863</u>	<u>-</u>	<u>8,125,863</u>	<u>7,102,194</u>
Deficit from operations	<u>(62,970)</u>	<u>-</u>	<u>(62,970)</u>	<u>(297,947)</u>
Support and Other Revenue:				
Contributions (Note 1):				
Foundations	260,000	250,000	510,000	15,000
Individuals	40,317	-	40,317	47,638
Donated goods or services	52,166	-	52,166	11,794
Special events	-	-	-	108,071
Investment loss	(3,151)	-	(3,151)	-
Interest income	-	-	-	4
Miscellaneous income	11,846	-	11,846	12,940
Net assets released from restrictions	8,290	(8,290)	-	-
Fund-raising expenses (inclusive of direct costs amounting to \$1,000 and \$35,867, respectively, from special event)	(26,616)	-	(26,616)	(111,385)
Total support and other revenue	<u>342,852</u>	<u>241,710</u>	<u>584,562</u>	<u>84,062</u>
Change in net assets	<u>279,882</u>	<u>241,710</u>	<u>521,592</u>	<u>(213,885)</u>
Net Assets:				
Beginning	1,130,473	8,290	1,138,763	1,352,648
Ending	<u>\$ 1,410,355</u>	<u>\$ 250,000</u>	<u>\$ 1,660,355</u>	<u>\$ 1,138,763</u>

See Notes to Combined Financial Statements.

Bronx Charter School for Excellence and Affiliate

Combined Statements of Functional Expenses

Year Ended June 30, 2013

(with summarized comparative financial information for the year ended June 30, 2012)

	Program Services - School Operations	Supporting Services			2013 Total	2012 Summarized Comparative Information Total
		General and Administrative	Fund- Raising	Total		
Personnel expenses:						
Payroll	\$ 3,718,601	\$ 662,943	\$ 15,113	\$ 678,056	\$ 4,396,657	\$ 3,779,027
Payroll taxes and benefits	742,879	135,000	3,050	138,050	880,929	820,118
Rent	757,556	130,471	3,035	133,506	891,062	1,051,307
Academic programs	384,015	-	-	-	384,015	337,836
Property development studies	-	-	-	-	-	30
Facility maintenance and security	169,126	29,128	675	29,803	198,929	204,862
Utilities	107,869	18,578	431	19,009	126,878	114,033
Consultants and substitute teachers	4,521	31,201	-	31,201	35,722	24,783
Professional fees	58,564	75,868	235	76,103	134,667	212,107
Depreciation and amortization	230,934	384,433	926	385,359	616,293	256,371
Insurance	42,987	11,991	172	12,163	55,150	41,326
Office and other	186,656	38,517	1,375	39,892	226,548	167,499
Telephone and Internet	15,807	2,719	62	2,781	18,588	14,896
Real estate taxes	84,005	14,448	336	14,784	98,789	97,813
Equipment/software purchases and rental	51,555	8,867	206	9,073	60,628	56,103
Fund-raising expenses	-	-	1,000	1,000	1,000	35,468
Interest expense	-	26,624	-	26,624	26,624	-
	<u>\$ 6,555,075</u>	<u>\$ 1,570,788</u>	<u>\$ 26,616</u>	<u>\$ 1,597,404</u>	<u>\$ 8,152,479</u>	<u>\$ 7,213,579</u>

See Notes to Combined Financial Statements.

Bronx Charter School for Excellence and Affiliate

Combined Statements of Cash Flows

Year Ended June 30, 2013

(with summarized comparative financial information for the year ended June 30, 2012)

	2013	2012
Cash Flows From Operating Activities:		
Change in net assets	\$ 521,592	\$ (213,885)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	616,293	256,371
Net realized and unrealized losses	2,154	-
Deferred rent	320,282	396,151
Bond premium amortization	(14,285)	
Changes in operating assets and liabilities:		
Increase in grants and other receivables	(121,397)	(154,775)
Decrease in prepaid expenses and other assets	158,257	38,087
Increase in accounts payable and accrued expenses	455,962	153,675
Net cash provided by operating activities	1,938,858	475,624
Cash Flows From Investing Activities:		
Purchases of property and equipment	(9,978,320)	(1,083,928)
Proceeds from sale of investments	1,864,114	-
Purchase of investments	(18,695,342)	-
Net cash used in investing activities	(26,809,548)	(1,083,928)
Cash Flows From Financing Activities:		
Proceeds from issuance of long-term debt	26,111,744	-
Proceeds from Charter School Financing Partnership	1,540,000	-
Payments for bond issuance costs	(1,604,446)	-
Net cash provided by financing activities	26,047,298	-
Net increase (decrease) in cash and cash equivalents	1,176,608	(608,304)
Cash and Cash Equivalents:		
Beginning	1,496,784	2,105,088
Ending	\$ 2,673,392	\$ 1,496,784
Supplemental Disclosure of Noncash Investing Activities:		
Incurrence of accounts payable for construction-in-progress	\$ 103,555	\$ 68,242

See Notes to Combined Financial Statements.

Bronx Charter School for Excellence and Affiliate

Notes to Combined Financial Statements

(with summarized comparative information as of and for the year ended June 30, 2012)

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

Nature of Operations: 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 2013, the School operated classes for students in kindergarten and grades 1 through 8.

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 2013, Friends was making new efforts to raise additional funds to support the School.

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, 2012, 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.

Restricted Investments and Fair Value Measurement: Restricted investments consist of cash equivalents and U.S. government bond obligations held for debt service and capitalized interest.

Bronx Charter School for Excellence and Affiliate

Notes to Combined Financial Statements

(with summarized comparative information as of and for the year ended June 30, 2012)

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

Under the Financial Accounting Standards Board's (the FASB) authoritative guidance on fair value measurements, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In determining fair value, the Charter School uses various methods including market, income and cost approaches. Based on these approaches, the School often utilizes certain assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and or the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated, or generally unobservable inputs. The School utilizes valuation techniques, that maximize the use of observable inputs and minimize the use of unobservable inputs. Based on the observability of the inputs used in the valuation techniques, the School is required to provide the following information according to the fair value hierarchy. The fair value hierarchy ranks the quality and reliability of the information used to determine fair values. Financial assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories:

- Level 1: Quoted prices for identical assets and liabilities traded in active exchange markets, such as the New York Stock Exchange.
- Level 2: Observable inputs other than Level 1 including quoted prices for similar assets or liabilities, quoted prices in less active markets, or other observable inputs that can be corroborated by observable market data. Level 2 also includes derivative contracts whose value is determined using a pricing model with observable market inputs or can be derived principally from or corroborated by observable market data.
- Level 3: Unobservable inputs supported by little or no market activity for financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation; also includes observable inputs for nonbinding single-dealer quotes not corroborated by observable market data.

For the year ended June 30, 2013, the application of valuation techniques applied to similar assets and liabilities has been consistent. The fair value of investment securities is the market value based on quoted market prices, when available, or market prices provided by recognized broker-dealers. If listed prices or quotes are not available, fair value is based upon externally developed models that use unobservable inputs due to the limited market price activity of the instrument.

The School's investments as of June 30, 2013 include certificates of deposit of \$8,875,787 and U.S. government and agency obligations of \$7,444,952, which are considered Level 2 investments based on average daily yields, and measured at fair value on a recurring basis based on significant other observable inputs. The remaining investment balances are in money market funds.

Investment loss includes interest, recorded on an accrual basis, of \$4,298, net realized loss of \$(315), net unrealized gains and losses resulting from the change in prevailing market value of investments of \$(1,839) and investment fees of \$5,295 for the year ended June 30, 2013. Purchases and sales of investments are recorded on a trade-date basis.

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. These deferred costs were amortized on the straight-line basis over the life of the lease. In April 2013, as discussed in Note 4, the Organization purchased this space and the remaining unamortized portion was written off. Total amortization expense for the years ended June 30, 2013 and 2012 amounted to \$322,232 and \$14,010, respectively.

Bronx Charter School for Excellence and Affiliate

Notes to Combined Financial Statements

(with summarized comparative information as of and for the year ended June 30, 2012)

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

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. Prior to the bond issuance (Note 4), leasehold improvements were amortized over the shorter of the estimated useful life of the asset or the remaining term of the related lease. These improvements are continuing to be amortized over the originally calculated life. Building improvements are amortized over the estimated useful life of the improvement. Property and equipment acquired with certain government contract funds are recorded as expenses when the grantor retains title.

Valuation of Long-Lived Assets: The School accounts for the valuation of long-lived assets by reviewing such assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of the long-lived asset is measured by a comparison of the carrying amount of the asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value, less cost to sell.

Bond Financing Costs: The School paid certain customary fees as required to secure the bonds payable. These fees have been capitalized and are being amortized using the effective interest method over the life of the bonds.

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 combined 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.

Bronx Charter School for Excellence and Affiliate

Notes to Combined Financial Statements

(with summarized comparative information as of and for the year ended June 30, 2012)

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

During the years ended June 30, 2013 and 2012, contributions from board members were approximately \$16,000 and \$54,000, respectively; of these amounts, \$0 and \$7,500 were included in grants and other receivables, respectively.

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, 2013 and 2012, 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 (ASC) 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 2010, which is the standard statute of limitations look-back period.

Reclassifications: Certain 2012 amounts have been reclassified, where appropriate, to conform to the financial statement presentation used in 2013. Such reclassifications did not have any effect on total net assets or changes therein.

Recently Issued Accounting Pronouncement: In October 2012, the FASB issued Accounting Standards Update (ASU) 2012-04, *Technical Corrections and Improvements*. The amendments in this update cover a wide range of topics including technical corrections and improvements to the ASC and conforming amendments related to fair value measurements. The amendments in this update will generally be effective for fiscal periods beginning after December 15, 2013 for nonpublic entities, except for amendments in this update where there was no transition guidance and which were immediately effective upon issuance. The impact of adopting ASU 2012-04 on subsequent periods has not yet been determined.

Evaluation of 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 combined financial statements were available for issuance, which was October 30, 2013 for these combined financial statements.

Note 2. Grants and Other Receivables

As of June 30, 2013 and 2012, grants and other receivables amounted to \$426,080 and \$304,683, 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.

Bronx Charter School for Excellence and Affiliate

Notes to Combined Financial Statements

(with summarized comparative information as of and for the year ended June 30, 2012)

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, 2013 and 2012:

	<u>2013</u>	<u>2012</u>	<u>Estimated Useful Life</u>
Land	\$ 914,772	\$ 178,958	
Building and building improvements	6,103,578	3,127,592	4 - 39 years
Computer and other equipment	274,122	254,280	5 years
Furniture and fixtures	180,957	180,957	5 years
Construction-in-progress	<u>2,743,863</u>	<u>143,219</u>	
	10,217,292	3,885,006	
Less accumulated depreciation and amortization	<u>(1,102,460)</u>	<u>(830,827)</u>	
	<u>\$ 9,114,832</u>	<u>\$ 3,054,179</u>	

Depreciation expense amounted to \$271,633 and \$242,361 for the years ended June 30, 2013 and 2012, respectively.

Approximately \$7,400,000 of proceeds from the bonds (Note 4) was used to purchase the property the school had been renting and an adjacent lot. As of the purchase date, the outstanding deferred rent liability of approximately \$3,700,000 has been offset against the building's purchase price.

Note 4. Revenue Bonds Payable

In April 2013, Build NYC Resource Corporation issued \$23,310,000 in principal amount of Tax-Exempt Fixed Rate Revenue Bonds ("Series A") and \$690,000 in principal amount of Taxable Fixed Rate Revenue Bonds (Series B). Proceeds from the sale included a premium of \$2,111,744, which is being amortized over the life of the bond issue. The proceeds of the bonds were made available to the School pursuant to a special agreement with Build NYC Resource Corporation. The remaining proceeds are to be used to construct additional buildings to consolidate all the school grades into one location and for renovation of the current school facilities.

Revenue Bonds outstanding as of June 30, 2013:

Year	Series A		Series B		Total Principal
	Principal	Interest Rate	Principal	Interest Rate	
2014	\$ -	-	\$ -	-	\$ -
2015	-	-	-	-	-
2016	-	-	155,000	5%	155,000
2017	-	-	445,000	5%	445,000
2018	380,000	3%	90,000	5%	470,000
Thereafter	<u>22,930,000</u>	4-5.5%	<u>-</u>	-	<u>22,930,000</u>
	<u>\$ 23,310,000</u>		<u>\$ 690,000</u>		<u>\$ 24,000,000</u>

Principal payments for the Series A and B bonds are due annually, as indicated, on April 1.

Bronx Charter School for Excellence and Affiliate

Notes to Combined Financial Statements

(with summarized comparative information as of and for the year ended June 30, 2012)

Note 4. Revenue Bonds Payable (Continued)

The Series A bonds are subject to optional redemption, in whole or in part, at the option of the Issuer at the request of the School on April 1, 2023 or any business day thereafter. The bonds maturing in 2033 and 2043 are subject to mandatory sinking fund installments beginning in 2024 and 2034, respectively.

Series B bonds have a stated rate and maturity of 5% and 2018, respectively. The bonds are subject to mandatory sinking fund installments beginning in 2016.

The bonds are secured by the assets and certain revenue of the School. Additionally, the Charter School Financing Partnership, an organization established to provide access to secondary market financing for charter schools that serve disadvantaged students and communities, has provided funds amounting to \$1,540,000 to be held by the trustee in a Debt Reserve account as additional security. This amount is included in restricted investments in the combined statement of financial position. The School is obligated to pay an annual fee equal to 0.14% of the bonds' outstanding principal amount, as of March 31 of each year, for the use of these funds as security. The funds are to be repaid to the Charter School Financing Partnership upon expiration of the bonds.

In accordance with the loan agreement, the proceeds from the sale of the revenue bonds were placed in a Project Fund, maintained by U.S. Bank. The trustee is to use the monies in this fund to make payments to or on behalf of the School to pay for the costs of the project upon receipt of written requisitions. Any monies remaining in the Project Fund will be transferred to the Redemption Account of the Bond Fund, to be applied by the trustees towards the redemption of the bonds. At June 30, 2013, the unexpended balance was \$14,712,881, which is included in restricted investments.

The School is subject to certain loan covenants which require the School to maintain specified cash on hand, debt service coverage ratio and limitations on further indebtedness.

Total issuance costs of approximately \$1,600,000 are being amortized over the life of the bonds. Amortization expense of \$22,428 was recorded for the year ended June 30, 2013. The School incurred net interest expense of approximately \$213,000 of which approximately \$186,000 was capitalized and is included in construction-in-progress and approximately \$27,000 is recognized in the combined statement of activities.

Note 5. Commitments

Operating Leases: 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 being used to operate classes for students in grades 5 through 8. This lease provided 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 is being amortized against the base rent on a monthly basis during the entire term of this lease.

Minimum future rental payments under this lease are approximately \$149,000 in the year ending June 30, 2014 and \$12,000 in the year ending June 30, 2015.

Building Design Project Commitment: During 2012, 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 bond issuance and related construction as discussed in Note 4. The original contract amount of \$750,000 was modified during the year to approximately \$1,115,000, of which approximately \$705,000 of costs have been incurred through June 30, 2013. These costs are included in construction-in-progress (see Note 3).

Bronx Charter School for Excellence and Affiliate

Notes to Combined Financial Statements

(with summarized comparative information as of and for the year ended June 30, 2012)

Note 5. Commitments (Continued)

During 2013, the School entered into a construction contractual agreement for the building and renovation of school facilities. The total contract amounted to approximately \$15,400,000, of which a deposit of approximately \$1,500,000 has been provided to the contractor and is included in construction-in-progress. At June 30, 2013, no significant construction had occurred.

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, 2013 and 2012, employer matching contributions in connection with this plan amounted to approximately \$92,000 and \$80,000, respectively, net of forfeitures.

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 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 8. Temporarily Restricted Net Assets

Temporarily restricted net assets of \$250,000 and \$8,290 represent time and purpose-restricted contributions as of June 30, 2013 and 2012, respectively.

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, in accordance with the 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 combined financial statements of Bronx Charter School for Excellence and Affiliate (the Organization), which comprise the combined statement of financial position as of June 30, 2013, and the related combined statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the combined financial statements, and have issued our report thereon dated October 30, 2013.

Internal Control over Financial Reporting

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's combined financial statements are free from 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 combined 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 30, 2013.

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.

McGladrey LLP

New York, New York
October 30, 2013.

Bronx Charter School for Excellence and Affiliate

Combining Statements of Financial Position

June 30, 2013

(with summarized comparative financial information as of June 30, 2012)

See Independent Auditor's Report

	2013			2012	
	Bronx Charter School for Excellence	Friends of Bronx Charter School for Excellence, Inc.	Eliminations	Total	Total
ASSETS					
Cash and Cash Equivalents	\$ 2,303,407	\$ 369,985	\$ -	\$ 2,673,392	\$ 1,496,784
Restricted Investments	16,829,074	-	-	16,829,074	-
Grants and Other Receivables	176,080	250,000	-	426,080	304,683
Due From Affiliate	103,299	-	(103,299)	-	-
Prepaid Expenses and Other Assets	57,394	1,490	-	58,884	217,141
Deferred Leasing Commissions	-	-	-	-	322,232
Property and Equipment, net	9,114,832	-	-	9,114,832	3,054,179
Bond Financing Costs, net	1,582,018	-	-	1,582,018	-
Total assets	<u>\$ 30,166,104</u>	<u>\$ 621,475</u>	<u>\$ (103,299)</u>	<u>\$ 30,684,280</u>	<u>\$ 5,395,019</u>
LIABILITIES AND NET ASSETS					
Liabilities:					
Accounts payable and accrued expenses	\$ 1,386,466	\$ -	\$ -	\$ 1,386,466	\$ 826,949
Bonds payable, net	26,097,459	-	-	26,097,459	-
Reserve for payment of debt service	1,540,000	-	-	1,540,000	-
Deferred rent	-	-	-	-	3,429,307
Due to affiliate	-	103,299	(103,299)	-	-
Total liabilities	<u>29,023,925</u>	<u>103,299</u>	<u>(103,299)</u>	<u>29,023,925</u>	<u>4,256,256</u>
Net Assets:					
Unrestricted	1,142,179	268,176	-	1,410,355	1,130,473
Temporarily restricted	-	250,000	-	250,000	8,290
Total net assets	<u>1,142,179</u>	<u>518,176</u>	<u>-</u>	<u>1,660,355</u>	<u>1,138,763</u>
Total liabilities and net assets	<u>\$ 30,166,104</u>	<u>\$ 621,475</u>	<u>\$ (103,299)</u>	<u>\$ 30,684,280</u>	<u>\$ 5,395,019</u>

Bronx Charter School for Excellence and Affiliate

Combining Statements of Activities

Year Ended June 30, 2013

(with summarized comparative financial information for the year ended June 30, 2012)

See Independent Auditor's Report

	2013		2012	
	Bronx Charter School for Excellence	Friends of Bronx Charter School for Excellence, Inc.	Total	Summarized Comparative Information Total
Operating Revenue:				
State and local per pupil operating revenue	\$ 7,698,079	\$ -	\$ 7,698,079	\$ 6,440,262
Government grants and contracts	364,814	-	364,814	363,985
Total operating revenue	8,062,893	-	8,062,893	6,804,247
Operating Expenses:				
Program services - School operations	6,555,075	-	6,555,075	5,963,563
General and administrative	1,210,530	360,258	1,570,788	1,138,631
Total operating expenses	7,765,605	360,258	8,125,863	7,102,194
Surplus (deficit) from operations	297,288	(360,258)	(62,970)	(297,947)
Support and Other Revenue:				
Contributions:				
Foundations	10,000	500,000	510,000	15,000
Individuals	18,165	22,152	40,317	47,638
Donated goods or services	52,166	-	52,166	11,794
Special events	-	-	-	108,071
Investment loss	(3,151)	-	(3,151)	-
Interest income	-	-	-	4
Miscellaneous income	11,846	-	11,846	12,940
Fund-raising expenses (inclusive of direct costs amounting to \$1,000 and \$35,468 respectively)	(25,307)	(1,309)	(26,616)	(111,385)
Total support and other revenue	63,719	520,843	584,562	84,062
Change in net assets	361,007	160,585	521,592	(213,885)
Net Assets:				
Beginning	781,172	357,591	1,138,763	1,352,648
Ending	<u>\$ 1,142,179</u>	<u>\$ 518,176</u>	<u>\$ 1,660,355</u>	<u>\$ 1,138,763</u>

Bronx Charter School for Excellence and Affiliate

Statements of Functional Expenses - Bronx Charter School for Excellence
Year Ended June 30, 2013

(with summarized comparative financial information for the year ended June 30, 2012)

See Independent Auditor's Report

	Program Services - School Operations	Supporting Services			2013 Total	2012 Summarized Comparative Information Total
		General and Administrative	Fund- Raising	Total		
Personnel expenses:						
Payroll	\$ 3,718,601	\$ 639,578	\$ 14,877	\$ 654,455	\$ 4,373,056	\$ 3,772,576
Payroll taxes and benefits	742,879	127,770	2,977	130,747	873,626	818,739
Rent	757,556	130,471	3,035	133,506	891,062	1,051,307
Academic programs	384,015	-	-	-	384,015	337,836
Property development studies	-	-	-	-	-	30
Facility maintenance and security	169,126	29,128	675	29,803	198,929	204,862
Utilities	107,869	18,578	431	19,009	126,878	114,033
Consultants and substitute teachers	4,521	31,201	-	31,201	35,722	24,783
Professional fees	58,564	70,318	235	70,553	129,117	205,354
Depreciation and amortization	230,934	62,201	926	63,127	294,061	242,361
Insurance	42,987	10,810	172	10,982	53,969	39,729
Office and other	186,656	37,817	1,375	39,192	225,848	164,270
Telephone and Internet	15,807	2,719	62	2,781	18,588	14,896
Real estate taxes	84,005	14,448	336	14,784	98,789	97,813
Equipment/software purchases and rental	51,555	8,867	206	9,073	60,628	56,103
Interest expense	-	26,624	-	26,624	26,624	-
	<u>\$ 6,555,075</u>	<u>\$ 1,210,530</u>	<u>\$ 25,307</u>	<u>\$ 1,235,837</u>	<u>\$ 7,790,912</u>	<u>\$ 7,144,692</u>

Bronx Charter School for Excellence and Affiliate

Statements of Functional Expenses - Friends of Bronx Charter School for Excellence, Inc.
Year Ended June 30, 2013

(with summarized comparative financial information for the year ended June 30, 2012)

See Independent Auditor's Report

	Program Services - Support to Bronx Charter School for Excellence	Supporting Services			2013 Total	2012 Summarized Comparative Information Total
		General and Administrative	Fund- Raising	Total		
Personnel expenses:						
Payroll	\$ -	\$ 23,365	\$ 236	\$ 23,601	\$ 23,601	\$ 6,451
Payroll taxes and benefits	-	7,230	73	7,303	7,303	1,379
Professional fees	-	5,550	-	5,550	5,550	6,753
Depreciation and amortization	-	322,232	-	322,232	322,232	14,010
Insurance	-	1,181	-	1,181	1,181	1,597
Office and other	-	700	-	700	700	3,229
Fund-raising expenses	-	-	1,000	1,000	1,000	35,468
	<u>\$ -</u>	<u>\$ 360,258</u>	<u>\$ 1,309</u>	<u>\$ 361,567</u>	<u>\$ 361,567</u>	<u>\$ 68,887</u>