

**BRONX CHARTER SCHOOL FOR EXCELLENCE AND
EXCELLENCE COMMUNITY SCHOOLS, INC.**

BRONX, NEW YORK

AUDITED COMBINED FINANCIAL STATEMENTS

OTHER COMBINING FINANCIAL INFORMATION

**REPORT REQUIRED BY
GOVERNMENT AUDITING STANDARDS**

AND

INDEPENDENT AUDITOR'S REPORTS

JUNE 30, 2016

(With Comparative Totals for 2015)



MENGEL METZGER BARR & CO. LLP

Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Bronx Charter School for Excellence
Excellence Community Schools, Inc.

Report on the Combined Financial Statements

We have audited the accompanying combined financial statements of Bronx Charter School for Excellence and Excellence Community Schools, Inc. which comprise the combined statement of financial position as of June 30, 2016, and the related combined statements of activities and changes in net assets, 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 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 financial position of Bronx Charter School for Excellence and Excellence Community Schools, Inc. as of June 30, 2016, 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.

Report on Summarized Comparative Information

We have previously audited Bronx Charter School for Excellence and Friends of Bronx Charter School for Excellence's (now known as Excellence Community Schools, Inc.) June 30, 2015 combined financial statements and we expressed an unmodified opinion on those combined statements in our report dated on October 28, 2015. In our opinion the summarized comparative information presented herein as of and for the year ended June 30, 2015 is consistent, in all material respects, with the audited combined financial statements from which it has been derived.

Other Report Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 27, 2016 on our consideration of Bronx Charter School for Excellence and Excellence Community Schools, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the control over financial reporting or 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 Excellence Community Schools, Inc.'s internal control over financial reporting and compliance.

Mengel, Metzger, Barz & Co. LLP

Rochester, New York
October 27, 2016

BRONX CHARTER SCHOOL FOR EXCELLENCE AND
EXCELLENCE COMMUNITY SCHOOLS, INC.

COMBINED STATEMENT OF FINANCIAL POSITION

JUNE 30, 2016
(With Comparative Totals for 2015)

<u>ASSETS</u>	June 30,	
	2016	2015
<u>CURRENT ASSETS</u>		
Cash and cash equivalents	\$ 3,111,119	\$ 4,040,679
Grants and other receivables	475,975	211,365
Prepaid expenses	156,724	126,635
Security deposits	19,195	19,195
TOTAL CURRENT ASSETS	3,763,013	4,397,874
<u>PROPERTY AND EQUIPMENT</u> , net	32,323,697	26,372,964
<u>OTHER ASSETS</u>		
Investments - restricted	2,510,119	4,613,312
Bond issuance costs and loan closing costs, net of accumulated amortization of \$345,746 and \$240,279, respectively	1,275,292	1,380,759
	3,785,411	5,994,071
TOTAL ASSETS	\$ 39,872,121	\$ 36,764,909
<u>LIABILITIES AND NET ASSETS</u>		
<u>CURRENT LIABILITIES</u>		
Current portion of bonds payable	\$ 445,000	\$ 155,000
Accounts payable	518,840	950,001
Accrued expenses	355,347	335,167
Accrued payroll and benefits	999,176	849,362
Accrued construction retainage	460,114	1,055,256
Deferred revenue	1,792,734	344,897
Deferred lease incentive	10,747	14,907
Due to related party	284,800	274,800
TOTAL CURRENT LIABILITIES	4,866,758	3,979,390
<u>OTHER LIABILITIES</u>		
Bonds payable, net	25,247,158	25,778,980
Reserve for payment of debt service	1,540,000	1,540,000
TOTAL OTHER LIABILITIES	26,787,158	27,318,980
<u>NET ASSETS</u>		
Unrestricted	8,042,873	5,306,359
Temporarily restricted	175,332	160,180
TOTAL NET ASSETS	8,218,205	5,466,539
TOTAL LIABILITIES AND NET ASSETS	\$ 39,872,121	\$ 36,764,909

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

BRONX CHARTER SCHOOL FOR EXCELLENCE AND
EXCELLENCE COMMUNITY SCHOOLS, INC.

COMBINED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

YEAR ENDED JUNE 30, 2016
(With Comparative Totals for 2015)

	Year ended June 30,			2015
	2016		Total	
	Unrestricted	Temporarily restricted		
	Unrestricted	Temporarily restricted	Total	Total
Revenue, gains and other support:				
Public school district				
Resident student enrollment	\$ 10,866,309	\$ -	\$ 10,866,309	\$ 8,829,307
Students with disabilities	1,090,309	-	1,090,309	861,633
Grants and contracts:				
State and local	87,560	-	87,560	284,618
Federal - Title and IDEA	424,530	-	424,530	325,813
Federal - other	105,548	-	105,548	14,258
Other	-	-	-	32,591
Food service / Child nutrition program	6,358	-	6,358	2,424
TOTAL REVENUE, GAINS AND OTHER SUPPORT	12,580,614	-	12,580,614	10,350,644
Expenses:				
Program:				
Regular education	7,287,339	-	7,287,339	6,310,412
Special education	1,510,116	-	1,510,116	1,374,429
TOTAL PROGRAM EXPENSES	8,797,455	-	8,797,455	7,684,841
Management and general	1,899,767	-	1,899,767	1,582,193
Fundraising and special events	86,909	-	86,909	287,092
TOTAL OPERATING EXPENSES	10,784,131	-	10,784,131	9,554,126
SURPLUS FROM SCHOOL OPERATIONS	1,796,483	-	1,796,483	796,518
Support and other revenue:				
Contributions				
Foundations	789,897	25,000	814,897	1,054,095
Individuals	54,523	-	54,523	16,941
Corporations	1,160	-	1,160	10,000
Contributed services	71,995	-	71,995	59,805
Fundraising	-	-	-	551,389
Investment income	4,075	-	4,075	14,737
Miscellaneous income	8,533	-	8,533	300
Net assets released from restriction	9,848	(9,848)	-	-
TOTAL SUPPORT AND OTHER REVENUE	940,031	15,152	955,183	1,707,267
CHANGE IN NET ASSETS	2,736,514	15,152	2,751,666	2,503,785
Net assets at beginning of year	5,306,359	160,180	5,466,539	2,962,754
NET ASSETS AT END OF YEAR	<u>\$ 8,042,873</u>	<u>\$ 175,332</u>	<u>\$ 8,218,205</u>	<u>\$ 5,466,539</u>

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

BRONX CHARTER SCHOOL FOR EXCELLENCE AND
EXCELLENCE COMMUNITY SCHOOLS, INC.

COMBINED STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2016
(With Comparative Totals for 2015)

	Year ended June 30, 2016								Year ended June 30, 2015
	No. of Positions	Program Services			Supporting Services			Total	
		Regular Education	Special Education	Sub-total	Management and general	Fundraising and special events	Sub-total		
Personnel Services Costs:									
Administrative staff personnel	9	\$ 137,553	\$ 55,766	\$ 193,319	\$ 342,964	\$ 21,378	\$ 364,342	\$ 557,661	\$ 479,488
Instructional personnel	65	2,707,794	801,973	3,509,767	-	-	-	3,509,767	3,271,118
Non-instructional personnel	13	893,560	125,576	1,019,136	228,008	-	228,008	1,247,144	1,306,869
Total salaries and wages	87	3,738,907	983,315	4,722,222	570,972	21,378	592,350	5,314,572	5,057,475
Payroll taxes and employee benefits		1,136,543	262,997	1,399,540	152,712	5,718	158,430	1,557,970	1,454,374
Professional development		15,762	2,500	18,262	20,720	6,477	27,197	45,459	34,961
Legal fees		-	-	-	8,872	-	8,872	8,872	25,663
Audit/accounting fees		-	-	-	22,930	-	22,930	22,930	29,300
Financial management services		-	-	-	168,968	-	168,968	168,968	132,533
Professional services		311,574	72,793	384,367	133,179	11,168	144,347	528,714	541,312
Student and staff recruitment		8,688	1,410	10,098	11,081	3,452	14,533	24,631	28,212
Curriculum and classroom supplies		276,704	11,880	288,584	4,609	173	4,782	293,366	252,947
Office expenses		131,954	34,929	166,883	20,487	2,214	22,701	189,584	155,020
Student services		253,402	20,107	273,509	-	-	-	273,509	149,667
Insurance		1,524	-	1,524	144,064	1,524	145,588	147,112	148,154
Information technology		264	-	264	792	264	1,056	1,320	2,737
Building and Land Rent / Lease		133,622	32,672	166,294	56,046	12,262	68,308	234,602	234,294
Utilities		103,779	27,675	131,454	17,201	979	18,180	149,634	157,303
Non-capitalized equipment and furnishings		-	-	-	-	-	-	-	2,361
Repairs and maintenance		149,760	40,083	189,843	23,274	871	24,145	213,988	161,356
Depreciation and amortization		73,812	19,755	93,567	281,347	429	281,776	375,343	371,999
Interest expense		-	-	-	197,020	-	197,020	197,020	188,858
Replication expenses		951,044	-	951,044	-	-	-	951,044	121,463
Special events		-	-	-	1,720	-	1,720	1,720	201,480
Other		-	-	-	63,773	20,000	83,773	83,773	102,657
		<u>\$ 7,287,339</u>	<u>\$ 1,510,116</u>	<u>\$ 8,797,455</u>	<u>\$ 1,899,767</u>	<u>\$ 86,909</u>	<u>\$ 1,986,676</u>	<u>\$ 10,784,131</u>	<u>\$ 9,554,126</u>

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

BRONX CHARTER SCHOOL FOR EXCELLENCE AND
EXCELLENCE COMMUNITY SCHOOLS, INC.

COMBINED STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2016
(With Comparative Totals for 2015)

	Year ended June 30,	
	2016	2015
<u>CASH FLOWS - OPERATING ACTIVITIES</u>		
Change in net assets	\$ 2,751,666	\$ 2,503,785
Adjustments to reconcile change in net assets to net cash provided from operating activities:		
Depreciation and amortization	375,343	371,999
Net realized and unrealized losses	460	4,215
Bond premium amortization	(86,822)	(83,448)
Changes in certain assets and liabilities affecting operations:		
Grants and other receivables	(264,610)	372,553
Prepaid expenses	(30,089)	(20,617)
Security deposits	-	(10,010)
Accounts payable	(431,161)	701,697
Accrued expenses	20,180	(26,659)
Accrued payroll and benefits	149,814	105,340
Accrued construction retainage	(595,142)	-
Deferred revenue	1,447,837	65,225
Deferred lease incentive	(4,160)	(4,160)
Due to related party	10,000	274,800
NET CASH PROVIDED FROM OPERATING ACTIVITIES	3,343,316	4,254,720
<u>CASH FLOWS - INVESTING ACTIVITIES</u>		
Purchases of property and equipment	(6,220,609)	(8,696,309)
Proceeds from sale of investments	2,102,733	7,207,841
NET CASH USED FOR INVESTING ACTIVITIES	(4,117,876)	(1,488,468)
<u>CASH FLOWS - FINANCING ACTIVITIES</u>		
Repayments of bonds payable	(155,000)	-
NET CASH USED FOR FINANCING ACTIVITIES	(155,000)	-
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(929,560)	2,766,252
Cash and cash equivalents at beginning of year	4,040,679	1,274,427
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 3,111,119	\$ 4,040,679

BRONX CHARTER SCHOOL FOR EXCELLENCE AND
EXCELLENCE COMMUNITY SCHOOLS, INC.

COMBINED STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2016
(With Comparative Totals for 2015)

	<u>Year ended June 30,</u>	
	<u>2016</u>	<u>2015</u>
<u>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</u>		
Cash paid during the year for interest, not including capitalized interest of \$944,343 in 2016 and \$957,817 in 2015	<u>\$ 198,957</u>	<u>\$ 188,858</u>
Incurrence of accrued construction retainage for construction in progress	<u>\$ -</u>	<u>\$ 482,382</u>

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

BRONX CHARTER SCHOOL FOR EXCELLENCE AND
EXCELLENCE COMMUNITY SCHOOLS, INC.

NOTES TO COMBINED FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016
(With Comparative Totals for 2015)

NOTE A: THE ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of combination

The accompanying combined financial statements include the accounts of Bronx Charter School for Excellence, Inc. (the "Charter School") and Excellence Community Schools, Inc. ("Excellence"), (collectively referred to as the "Organization"). The Organizations are presenting combined financial statements because they have certain common Board of Trustees but no economic interest. All intercompany balances and transactions have been eliminated in the accompanying combined financial statements.

The Organization

The Charter School is an educational corporation operating as a charter school in the borough of the Bronx, New York. On April 29, 2003, the Board of Regents of the University of the State of New York granted Bronx Charter School for Excellence ("BCSE 1") a provisional charter valid for a term of five years and renewable upon expiration. In March 2009 and January 2014, BCSE 1 was awarded a full-term, five-year charter renewal. The current Charter renewal is through July 31, 2019. BCSE 1 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. BCSE 1 offers a challenging and rigorous academic curriculum which, at the earliest of grades, has an eye towards college preparation for grades first through eighth.

On November 2, 2015, the Board of Regents of the University of the State of New York amended the charter agreement permitting an additional school to be opened by the Charter School. During the 2016 fiscal year, the Charter School added Bronx Charter School for Excellence 2 ("BCSE 2") under its expanded charter. BCSE 2 has the authority to operate through July 31, 2021. BCSE 2 was established to provide its students with a solid foundation for academic success, through achievement that exceeds citywide averages and meets or exceeds New York State Standards and national norms in all curriculum areas tested, especially in mathematics and language arts.

The accompanying financial statements include the accounts of BCSE 1 and BCSE 2 (collectively referred to as the "Charter School"). All intercompany balances and transactions have been eliminated in the accompanying financial statements.

Excellence (formerly Friends of Bronx Charter School for Excellence, Inc.) 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. Excellence 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, Excellence 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 Charter School for a new building facility. From fiscal 2007 through fiscal 2016, Excellence was making new efforts to raise additional funds to support the Charter School. As of June 7, 2016 Excellence amended their certificate of incorporation to change the name of the Corporation from Friends of Bronx Charter School for Excellence, Inc. to Excellence Community Schools, Inc.

BRONX CHARTER SCHOOL FOR EXCELLENCE AND
EXCELLENCE COMMUNITY SCHOOLS, INC.

NOTES TO COMBINED FINANCIAL STATEMENTS, Cont'd

YEAR ENDED JUNE 30, 2016
(With Comparative Totals for 2015)

NOTE A: THE ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Cont'd

Educational Services Agreement

The Charter School is entering into an educational services agreement with Excellence effective July 1, 2016 through June 30, 2021 whereby Excellence will provide the Charter School with services related to education and instruction, business operations and human resources and employment. In turn Excellence shall be paid a service fee equal to 12% of all public revenues received by the Charter School during the fiscal year.

Financial Statement presentation

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 (GAAP). The Organization reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

These classes of net assets are defined as follows:

Permanently restricted – Net assets resulting from contributions and other inflows of assets whose use by the Organization is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Organization. The Organization had no permanently restricted net assets at June 30, 2016 or 2015.

Temporarily restricted – Net assets resulting from contributions and other inflows of assets whose use by the Organization is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Organization pursuant to those stipulations. Temporarily restricted net assets at June 30, 2016 and 2015 are restricted for a library for the new facilities and replication of another Charter School as disclosed in Note B.

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

Revenue and support recognition

Revenue from state and local governments resulting from the Charter School's charter status and based on the number of students enrolled is recorded when services are performed in accordance with the charter agreement.

Revenue from federal, state and local government grants and contracts are recorded by the Charter School when qualifying expenditures are incurred and billable or requirements of the grant are met.

Contributions are recognized as revenue in the year the pledge is received and documented.

BRONX CHARTER SCHOOL FOR EXCELLENCE AND
EXCELLENCE COMMUNITY SCHOOLS, INC.

NOTES TO COMBINED FINANCIAL STATEMENTS, Cont'd

YEAR ENDED JUNE 30, 2016
(With Comparative Totals for 2015)

NOTE A: THE ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Cont'd

Contributions

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

Contributions are recorded as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities and changes in net assets as net assets released from restrictions.

Cash and cash equivalents

Cash and cash equivalent balances are maintained at financial institutions located in New York and are insured by the FDIC up to \$250,000 at each institution. 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. In the normal course of business, the cash account balances at any given time may exceed insured limits. However, the Organization has not experienced any losses in such accounts and does not believe it is exposed to significant risk in cash and cash equivalents.

Grants and other receivables

Grants and other receivables are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts based on its assessment of the current status of individual receivables from grants, agencies and others. Balances that are still outstanding after management has used reasonable collection efforts are written off against the allowance for doubtful accounts. There was no allowance for doubtful accounts at June 30, 2016 or 2015.

Property and equipment

Property and equipment are recorded at cost. The Organization capitalizes all purchases of fixed assets in excess of \$5,000. Depreciation and amortization are computed using the straight-line method on a basis considered adequate to depreciate the assets over their estimated useful lives, which range from 4 to 39 years. Construction in progress represents building, classroom and office improvements which have been performed on a new building that is not yet in service. Construction in progress is stated at cost. No provision for depreciation is made on construction in progress until such time as the relevant assets are completed and put into use. Prior to the bond issuance (Note G), 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.

At June 30, 2016, the Charter School had additional commitments of approximately \$7,000,000 for construction in progress related to the completion of the building renovation project, all of which are expected to be incurred during year ending June 30, 2017.

BRONX CHARTER SCHOOL FOR EXCELLENCE AND
EXCELLENCE COMMUNITY SCHOOLS, INC.

NOTES TO COMBINED FINANCIAL STATEMENTS, Cont'd

YEAR ENDED JUNE 30, 2016
(With Comparative Totals for 2015)

NOTE A: THE ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Cont'd

Bond issuance costs and loan closing costs

Bond issuance costs and loan closing costs, which consist of deferred financing charges, are stated at cost and are amortized over the term of the bonds and loans which vary from 5 to 30 years through various dates up to April 2043.

Deferred lease incentive

The Charter School leases its office equipment. The lease escalated the original lease payments and caused a buy-out from the prior lease. In accordance with GAAP, the Charter School recognizes the related buy-out credit on a straight-line basis and records the difference between the recognized lease credit and the amounts receivable under the lease as a deferred lease incentive.

Deferred revenue

The Charter School records grant revenue as deferred revenue until it is expended for the purpose of the grant, at which time it is recognized as revenue.

Investments - restricted

Restricted investments consist of cash equivalents and U.S. government bond obligations held for debt service and capitalized interest.

Investment income includes interest, recorded on an accrual basis, dividends, net realized gains and losses, and net unrealized gains and losses, resulting from the change in prevailing market value of investments. Purchase and sales of investments are recorded on a trade-date basis.

Tax exempt status

The Charter School and Excellence are tax-exempt organizations under section 501(c)(3) of the Internal Revenue Code and applicable state regulations and, accordingly, are exempt from federal and state taxes on income. The Charter School and Excellence file Form 990 tax returns in the U.S. federal jurisdiction and Excellence files in New York State.

Contributed services

The Charter School receives contributed services from volunteers to develop its academic program and to serve on the Board of Trustees. In addition the Charter School received donated transportation services, metro cards, funding for free and reduced-cost breakfasts, lunches and snacks, special education services and physical, occupational, and speech therapy that was also provided for the students from the local district. These services are not valued in the combined financial statements.

The Charter School received contributed legal services which were valued at \$71,995 and \$59,805 and are included in contributed services in the accompanying combined statement of activities and changes in net assets for the years ended June 30, 2016 and 2015, respectively.

In-kind contributions

Gifts and donations other than cash are recorded at fair market value at the date of contribution.

BRONX CHARTER SCHOOL FOR EXCELLENCE AND
EXCELLENCE COMMUNITY SCHOOLS, INC.

NOTES TO COMBINED FINANCIAL STATEMENTS, Cont'd

YEAR ENDED JUNE 30, 2016
(With Comparative Totals for 2015)

NOTE A: THE ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Cont'd

Marketing and recruiting costs

The Organization expenses marketing and recruiting costs as they are incurred. Total marketing and recruiting costs approximated \$24,600 and \$28,200 for the years ended June 30, 2016 and 2015, respectively.

Use of estimates in the preparation of combined financial statements

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

Comparatives for year ended June 30, 2015

The combined financial statements include certain prior year summarized comparative information in total, but not by net asset class and functional classification. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Organization's combined financial statements for the year ended June 30, 2015, from which the summarized information was derived.

Reclassifications

Certain prior year balances have been reclassified to conform with current year presentation.

Subsequent events

The Organization has conducted an evaluation of potential subsequent events occurring after the statement of financial position date through October 27, 2016, which is the date the combined financial statements are available to be issued. No subsequent events requiring disclosure were noted, except as described in Education Services Agreement section above.

NOTE B: RELATED PARTY TRANSACTIONS

The Charter School received grant and other funding to pay for expenses to complete school replication in Connecticut. The school paid for certain expenses relating to the opening of Stamford Charter School for Excellence ("Stamford"). Further, the School received funding which is to be paid to Stamford to fund operating expenses and is included in due to related party at June 30, 2016 and 2015 in the amounts of \$284,800 and \$274,800, respectively.

BRONX CHARTER SCHOOL FOR EXCELLENCE AND
EXCELLENCE COMMUNITY SCHOOLS, INC.

NOTES TO COMBINED FINANCIAL STATEMENTS, Cont'd

YEAR ENDED JUNE 30, 2016
(With Comparative Totals for 2015)

NOTE C: SCHOOL FACILITIES

The Charter School entered into a four-year operating lease agreement not cancelable for three years with an unrelated third party for a facility in the borough of Bronx, New York in August 2010. This facility is being used to operate classes for students in grades fifth through eighth. This lease provided a leasehold incentive (work credit) of \$78,173 for costs to be incurred by the Charter 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. Rent expense totaled approximately \$235,000 and \$234,000 for the years ended June 30, 2016 and 2015, respectively.

The Charter School extended the lease through June 2016 when it converted to a month to month agreement. Monthly rental payments were \$14,000 through June 2016.

Excellence entered into a lease with monthly payments of \$4,750 through September 2016.

The future minimum payments on this agreement are as follows:

<u>Year ending June 30,</u>	<u>Amount</u>
2017	\$ 14,250

NOTE D: PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	<u>June 30,</u>	
	<u>2016</u>	<u>2015</u>
Land	\$ 914,772	\$ 914,772
Buildings	6,748,465	6,748,465
Furniture and fixtures	240,938	202,859
Computers and software	403,909	343,139
Construction in progress	25,061,005	18,939,245
Leasehold improvements	<u>911,325</u>	<u>911,325</u>
	34,280,414	28,059,805
Less accumulated depreciation and amortization	<u>1,956,717</u>	<u>1,686,841</u>
	<u>\$ 32,323,697</u>	<u>\$ 26,372,964</u>

Total depreciation expense was \$269,876 and \$265,446 for the years ended June 30, 2016 and 2015, respectively.

BRONX CHARTER SCHOOL FOR EXCELLENCE AND
EXCELLENCE COMMUNITY SCHOOLS, INC.

NOTES TO COMBINED FINANCIAL STATEMENTS, Cont'd

YEAR ENDED JUNE 30, 2016
(With Comparative Totals for 2015)

NOTE E: OPERATING LEASES AND COMMITMENTS

During January 2014, the Charter School canceled its lease of office equipment under a lease agreement that would have expired March 2016. The Charter School entered into a new lease for office equipment under a non-cancelable lease agreement at a monthly cost of \$2,578 that will expire February 2019. Associated with this new lease the Charter School received a buy-out for the remaining payments for its prior lease totaling \$20,800. The Charter School recorded the total buy-out amount as a deferred lease incentive and will recognize approximately \$350 per month for the duration of the new lease as other income. The Charter School recognized approximately \$4,160 for each of the years ended June 30, 2016 and 2015.

The Charter School leases office equipment under non-cancelable lease agreements at a monthly cost of \$1,342 that will expire at various dates through October 2019.

The Charter School has an elevator service agreement at a monthly cost of \$400 through January 2018. This agreement will be automatically renewed every 5 years unless it is terminated by either party.

The future minimum payments on these agreements are approximately as follows:

<u>Year ending June 30,</u>	<u>Amount</u>
2017	\$ 52,000
2018	43,000
2019	29,000
2020	6,000
2021	5,000
	<u>\$ 135,000</u>

BRONX CHARTER SCHOOL FOR EXCELLENCE AND
EXCELLENCE COMMUNITY SCHOOLS, INC.

NOTES TO COMBINED FINANCIAL STATEMENTS, Cont'd

YEAR ENDED JUNE 30, 2016
(With Comparative Totals for 2015)

NOTE F: FAIR VALUE MEASUREMENTS

Accounting principles generally accepted in the United States of America establishes a framework for measuring fair value. The framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques to measure the fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under FASB ASC 820-10 are described below:

- Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets.
- Level 2 - Inputs to the valuation methodology include:
- Quoted prices for similar assets or liabilities in active markets;
 - Quoted prices for identical or similar assets or liabilities in inactive markets;
 - Inputs other than quoted prices that are observable for the asset or liability;
 - Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

- Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurements.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets and liabilities measured at fair value. There have been no changes in the methodologies used at June 30, 2016 and 2015:

Cash and cash equivalents, commercial paper, and money market funds: Fair value equals cost.

U.S. Government and Agency securities: Valued by third-party brokers based on terms and conditions using trades, bid price or spread, two sided markets, quotes, benchmark curves, discount rates, TRACE trade reports, financial statements and trustee reports.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

BRONX CHARTER SCHOOL FOR EXCELLENCE AND
EXCELLENCE COMMUNITY SCHOOLS, INC.

NOTES TO COMBINED FINANCIAL STATEMENTS, Cont'd

YEAR ENDED JUNE 30, 2016
(With Comparative Totals for 2015)

NOTE F: FAIR VALUE MEASUREMENTS, Cont'd

The following table sets forth by level, within the fair value hierarchy; the Charter School's restricted investment assets measured at fair value on a recurring basis as of June 30, 2016 and 2015:

	Assets at Fair Value			
	Level 1	Level 2	Level 3	Total
<u>June 30, 2016:</u>				
Money market	\$ 2,431,789	\$ -	\$ -	\$ 2,431,789
Commercial paper	-	78,330	-	78,330
Total assets at fair value	\$ 2,431,789	\$ 78,330	\$ -	\$ 2,510,119

	Assets at Fair Value			
	Level 1	Level 2	Level 3	Total
<u>June 30, 2015:</u>				
Money market	\$ 4,535,059	\$ -	\$ -	\$ 4,535,059
Commercial paper	-	8,209	-	8,209
U.S. government and agency securities	-	70,044	-	70,044
Total assets at fair value	\$ 4,535,059	\$ 78,253	\$ -	\$ 4,613,312

Investment securities are exposed to various risks, such as interest rate, market and credit risk. Due to the risk associated with investment securities, it is at least reasonably possible that changes in risk could materially affect the accompanying combined financial statements.

BRONX CHARTER SCHOOL FOR EXCELLENCE AND
EXCELLENCE COMMUNITY SCHOOLS, INC.

NOTES TO COMBINED FINANCIAL STATEMENTS, Cont'd

YEAR ENDED JUNE 30, 2016
(With Comparative Totals for 2015)

NOTE G: BONDS PAYABLE

During 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 Charter 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, 2016 and 2015:

<u>Year</u>	<u>Series A</u>		<u>Series B</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest Rate</u>	<u>Principal</u>	<u>Interest Rate</u>	
Bond payable	\$ 23,310,000	3% - 5.5%	\$ 690,000	5%	\$ 24,000,000
Unamortized bond premium	<u>1,933,980</u>		<u>-</u>		<u>1,933,980</u>
Balance at June 30, 2015	<u>\$ 25,243,980</u>		<u>\$ 690,000</u>		<u>\$ 25,933,980</u>
2017	\$ -		\$ 445,000	5%	\$ 445,000
2018	380,000	3%	90,000	5%	470,000
2019	485,000	3%	-		485,000
2020	505,000	4%	-		505,000
2021	525,000	4%	-		525,000
Thereafter	<u>21,415,000</u>	4% - 5.5%	<u>-</u>		<u>21,415,000</u>
Bond payable	23,310,000		535,000		23,845,000
Unamortized bond premium	<u>1,847,158</u>		<u>-</u>		<u>1,847,158</u>
Balance at June 30, 2016	<u>\$ 25,157,158</u>		<u>\$ 535,000</u>		<u>\$ 25,692,158</u>

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

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 Charter 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.

The 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.

BRONX CHARTER SCHOOL FOR EXCELLENCE AND
EXCELLENCE COMMUNITY SCHOOLS, INC.

NOTES TO COMBINED FINANCIAL STATEMENTS, Cont'd

YEAR ENDED JUNE 30, 2016
(With Comparative Totals for 2015)

NOTE G: BONDS PAYABLE, Cont'd

The bonds are secured by the assets and certain revenue of the Charter 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 Charter School is obligated to pay an annual fee equal to 0.14% of the bonds outstanding principal amount as of March 31st 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 Charter 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, 2016 and 2015, the unexpended balance were \$78,330 and \$78,253, respectively, which is included in restricted investments.

The Charter School is subject to certain loan covenants which require the Charter School to maintain specified cash on hand, debt service coverage ratio and limitations on further indebtedness. The Charter School is in compliance with all loan covenants as of June 30, 2016 and 2015.

Total issuance costs of approximately \$1,621,000 are being amortized over the life of the bonds. Amortization expense of \$105,467 and \$106,553 were recorded for the years ended June 30, 2016 and 2015, respectively. The Charter School incurred net interest expense of approximately \$1,141,000 of which \$944,000 was capitalized and is included in construction-in-progress and approximately \$197,000 is recognized in the combined statement of activities and changes in net assets for the year ended June 30, 2016. The Charter School incurred net interest expense of approximately \$1,147,000 of which \$958,000 was capitalized and is included in construction-in-progress and approximately \$189,000 is recognized in the combined statement of activities and changes in net assets for the year ended June 30, 2015.

NOTE H: RETIREMENT PLAN

The Charter School sponsors a defined contribution 403(b) plan covering all eligible employees. The Charter School matches up to 5% of each employee's annual compensation not to exceed the employee's salary deferral amount. The Charter School may also elect to make additional contributions to the plan on a discretionary basis. For the years ended June 30, 2016 and 2015, the Charter School made contributions of approximately \$103,000 and \$104,000, respectively.

BRONX CHARTER SCHOOL FOR EXCELLENCE AND
EXCELLENCE COMMUNITY SCHOOLS, INC.

NOTES TO COMBINED FINANCIAL STATEMENTS, Cont'd

YEAR ENDED JUNE 30, 2016
(With Comparative Totals for 2015)

NOTE I: CONTINGENCY

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

NOTE J: CONCENTRATIONS

At June 30, 2016, approximately 84% of grants and other receivables are due from New York State relating to certain grants.

At June 30, 2015, approximately 88% of grants and other receivables are due from New York State relating to certain grants.

For the years ended June 30, 2016 and 2015, 95% and 94%, respectively, of total operating revenue and support came from per-pupil funding provided by New York State. The per-pupil rate is set annually by the State based on the school district in which the Charter School's students are located.

**BRONX CHARTER SCHOOL FOR EXCELLENCE AND
EXCELLENCE COMMUNITY SCHOOLS, INC.**

OTHER COMBINING FINANCIAL INFORMATION

INDEPENDENT AUDITOR'S REPORT ON COMBINING FINANCIAL INFORMATION

Board of Trustees
Bronx Charter School for Excellence
Excellence Community Schools, Inc.

We have audited the combined financial statements of Bronx Charter School for Excellence and Excellence Community Schools, Inc. as of and for the year ended June 30, 2016, and have issued our report thereon dated October 27, 2016, which contained an unmodified opinion on those combined financial statements. Our audit was conducted for the purpose of forming an opinion on the combined financial statements as a whole. The 2016 combining information 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 combining 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 combining financial statements for the year ended June 30, 2016, as a whole.

Mengel, Metzger, Barr & Co. LLP

Rochester, New York
October 27, 2016

BRONX CHARTER SCHOOL FOR EXCELLENCE AND
EXCELLENCE COMMUNITY SCHOOLS, INC.

COMBINING STATEMENT OF FINANCIAL POSITION

JUNE 30, 2016
(With Comparative Totals for 2015)

<u>ASSETS</u>	June 30,				
	2016			2015	
	Bronx Charter School for Excellence	Excellence Community Schools, Inc.	Eliminations	Total	Total
<u>CURRENT ASSETS</u>					
Cash and cash equivalents	\$ 487,139	\$ 2,623,980	\$ -	\$ 3,111,119	\$ 4,040,679
Grants and other receivables	475,975	-	-	475,975	211,365
Prepaid expenses	97,336	59,388	-	156,724	126,635
Security deposits	9,185	10,010	-	19,195	19,195
Due from affiliate	184,444	-	(184,444)	-	-
TOTAL CURRENT ASSETS	1,254,079	2,693,378	(184,444)	3,763,013	4,397,874
<u>PROPERTY AND EQUIPMENT, net</u>	32,318,147	5,550	-	32,323,697	26,372,964
<u>OTHER ASSETS</u>					
Investments - restricted	2,510,119	-	-	2,510,119	4,613,312
Bond issuance costs and loan closing costs, net of accumulated amortization of \$345,746 and \$240,279, respectively	1,275,292	-	-	1,275,292	1,380,759
TOTAL ASSETS	\$ 37,357,637	\$ 2,698,928	\$ (184,444)	\$ 39,872,121	\$ 36,764,909
<u>LIABILITIES AND NET ASSETS</u>					
<u>CURRENT LIABILITIES</u>					
Current portion of bonds payable	\$ 445,000	\$ -	\$ -	\$ 445,000	\$ 155,000
Accounts payable	486,803	32,037	-	518,840	950,001
Accrued expenses	354,377	970	-	355,347	335,167
Accrued payroll and benefits	999,176	-	-	999,176	849,362
Accrued construction retainage	460,114	-	-	460,114	1,055,256
Deferred revenue	2,734	1,790,000	-	1,792,734	344,897
Deferred lease incentive	10,747	-	-	10,747	14,907
Due to related party	55,075	414,169	(184,444)	284,800	274,800
TOTAL CURRENT LIABILITIES	2,814,026	2,237,176	(184,444)	4,866,758	3,979,390
<u>OTHER LIABILITIES</u>					
Bonds payable, net	25,247,158	-	-	25,247,158	25,778,980
Reserve for payment of debt service	1,540,000	-	-	1,540,000	1,540,000
	26,787,158	-	-	26,787,158	27,318,980
<u>NET ASSETS</u>					
Unrestricted	7,581,121	461,752	-	8,042,873	5,306,359
Temporarily restricted	175,332	-	-	175,332	160,180
TOTAL LIABILITIES AND NET ASSETS	\$ 37,357,637	\$ 2,698,928	\$ (184,444)	\$ 39,872,121	\$ 36,764,909

BRONX CHARTER SCHOOL FOR EXCELLENCE AND
EXCELLENCE COMMUNITY SCHOOLS, INC.

COMBINING STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

YEAR ENDED JUNE 30, 2016
(With Comparative Totals for 2015)

	Year ended June 30,					2015
	2016					
	Bronx Charter School for Excellence BCSE 1	BCSE 2	Excellence Community Schools, Inc.	Eliminations	Total	
Revenue, gains and other support:						
Public school district						
Resident student enrollment	\$ 10,866,309	\$ -	\$ -	\$ -	\$ 10,866,309	\$ 8,829,307
Students with disabilities	1,090,309	-	-	-	1,090,309	861,633
Grants and contracts:						
State and local	87,560	-	-	-	87,560	284,618
Federal - Title and IDEA	424,530	-	-	-	424,530	325,813
Federal - other	5,829	99,719	-	-	105,548	14,258
Other	-	-	-	-	-	32,591
Food service / Child nutrition program	6,358	-	-	-	6,358	2,424
TOTAL REVENUE, GAINS AND OTHER SUPPORT	<u>12,480,895</u>	<u>99,719</u>	<u>-</u>	<u>-</u>	<u>12,580,614</u>	<u>10,350,644</u>
Expenses:						
Program:						
Regular education	6,137,991	53,906	1,095,442	-	7,287,339	6,310,412
Special education	1,496,817	13,299	-	-	1,510,116	1,374,429
TOTAL PROGRAM EXPENSES	<u>7,634,808</u>	<u>67,205</u>	<u>1,095,442</u>	<u>-</u>	<u>8,797,455</u>	<u>7,684,841</u>
Management and general	1,755,236	28,009	116,522	-	1,899,767	1,582,193
Fundraising and special events	27,674	4,506	54,729	-	86,909	287,092
TOTAL OPERATING EXPENSES	<u>9,417,719</u>	<u>99,719</u>	<u>1,266,693</u>	<u>-</u>	<u>10,784,131</u>	<u>9,554,126</u>
SURPLUS (DEFICIT) FROM SCHOOL OPERATIONS	3,063,176	-	(1,266,693)	-	1,796,483	796,518
Support and other revenue:						
Contributions						
Foundations	59,897	-	755,000	-	814,897	1,054,095
Individuals	25,300	-	29,223	-	54,523	16,941
Corporations	130	-	1,030	-	1,160	10,000
Contributed services	71,995	-	-	-	71,995	59,805
Fundraising	-	-	-	-	-	551,389
Investment income	3,796	-	279	-	4,075	14,737
Miscellaneous income	400	-	8,133	-	8,533	300
TOTAL SUPPORT AND OTHER REVENUE	<u>161,518</u>	<u>-</u>	<u>793,665</u>	<u>-</u>	<u>955,183</u>	<u>1,707,267</u>
CHANGE IN NET ASSETS	3,224,694	-	(473,028)	-	2,751,666	2,503,785
Net assets at beginning of year	4,531,759	-	934,780	-	5,466,539	2,962,754
NET ASSETS AT END OF YEAR	<u>\$ 7,756,453</u>	<u>\$ -</u>	<u>\$ 461,752</u>	<u>\$ -</u>	<u>\$ 8,218,205</u>	<u>\$ 5,466,539</u>

BRONX CHARTER SCHOOL FOR EXCELLENCE AND
EXCELLENCE COMMUNITY SCHOOLS, INC.

STATEMENT OF FUNCTIONAL EXPENSES – BRONX CHARTER SCHOOL FOR EXCELLENCE

YEAR ENDED JUNE 30, 2016
(With Comparative Totals for 2015)

	Year ended June 30, 2016							Year ended June 30, 2015
	Program Services			Supporting Services				
	Regular Education	Special Education	Sub-total	Management and general	Fundraising and special events	Sub-total	Total	
Personnel Services Costs:								
Administrative staff personnel	\$ 137,553	\$ 55,766	\$ 193,319	\$ 342,964	\$ 21,378	\$ 364,342	\$ 557,661	\$ 479,488
Instructional personnel	2,707,794	801,973	3,509,767	-	-	-	3,509,767	3,271,118
Non-instructional personnel	893,560	125,576	1,019,136	228,008	-	228,008	1,247,144	1,263,472
Total salaries and wages	3,738,907	983,315	4,722,222	570,972	21,378	592,350	5,314,572	5,014,078
Payroll taxes and employee benefits	1,136,543	262,997	1,399,540	152,712	5,718	158,430	1,557,970	1,454,374
Professional development	9,341	2,500	11,841	1,452	54	1,506	13,347	29,531
Legal fees	-	-	-	84	-	84	84	621
Audit/accounting fees	-	-	-	22,930	-	22,930	22,930	29,300
Financial management services	-	-	-	168,968	-	168,968	168,968	132,533
Professional services	301,862	72,793	374,655	104,041	1,455	105,496	480,151	446,960
Student and staff recruitment	5,268	1,410	6,678	819	31	850	7,528	27,520
Curriculum and classroom supplies	233,120	11,880	245,000	4,609	173	4,782	249,782	252,947
Office expenses	130,499	34,929	165,428	16,122	759	16,881	182,309	154,163
Student services	177,465	20,107	197,572	-	-	-	197,572	91,266
Insurance	-	-	-	139,492	-	139,492	139,492	136,685
Information technology	-	-	-	-	-	-	-	929
Building and Land Rent / Lease	122,070	32,672	154,742	18,971	710	19,681	174,423	191,544
Utilities	103,402	27,675	131,077	16,070	602	16,672	147,749	156,608
Non-capitalized equipment and furnishings	-	-	-	-	-	-	-	2,361
Repairs and maintenance	149,760	40,083	189,843	23,274	871	24,145	213,988	158,781
Depreciation and amortization	73,812	19,755	93,567	281,347	429	281,776	375,343	371,999
Interest expense	-	-	-	197,020	-	197,020	197,020	188,858
Replication expenses	9,848	-	9,848	-	-	-	9,848	-
Special events	-	-	-	1,720	-	1,720	1,720	1,714
Other	-	-	-	62,642	-	62,642	62,642	98,783
	<u>\$ 6,191,897</u>	<u>\$ 1,510,116</u>	<u>\$ 7,702,013</u>	<u>\$ 1,783,245</u>	<u>\$ 32,180</u>	<u>\$ 1,815,425</u>	<u>\$ 9,517,438</u>	<u>\$ 8,941,555</u>

BRONX CHARTER SCHOOL FOR EXCELLENCE AND
EXCELLENCE COMMUNITY SCHOOLS, INC.

STATEMENT OF FUNCTIONAL EXPENSES – EXCELLENCE COMMUNITY SCHOOLS, INC.

YEAR ENDED JUNE 30, 2016
(WITH COMPARATIVE TOTALS FOR 2015)

	Year ended June 30, 2016							Year ended June 30, 2015
	Program Services			Supporting Services			Total	
	Regular Education	Special Education	Sub-total	Management and general	Fundraising and special events	Sub-total		
Personnel services costs:								
Non-instructional personnel	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 43,397
Total salaries and wages	-	-	-	-	-	-	-	43,397
Professional development	6,421	-	6,421	19,268	6,423	25,691	32,112	5,430
Legal fees	-	-	-	8,788	-	8,788	8,788	25,042
Professional services	9,712	-	9,712	29,138	9,713	38,851	48,563	94,352
Student and staff recruitment	3,420	-	3,420	10,262	3,421	13,683	17,103	692
Curriculum and classroom supplies	43,584	-	43,584	-	-	-	43,584	-
Office expenses	1,455	-	1,455	4,365	1,455	5,820	7,275	857
Student services	75,937	-	75,937	-	-	-	75,937	58,401
Insurance	1,524	-	1,524	4,572	1,524	6,096	7,620	11,469
Repairs and maintenance	-	-	-	-	-	-	-	2,575
Informational technology	264	-	264	792	264	1,056	1,320	1,808
Building and Land Rent / Lease	11,552	-	11,552	37,075	11,552	48,627	60,179	42,750
Utilities	377	-	377	1,131	377	1,508	1,885	695
Replication expenses	941,196	-	941,196	-	-	-	941,196	121,463
Special events	-	-	-	-	-	-	-	199,766
Other	-	-	-	1,131	20,000	21,131	21,131	3,874
	<u>\$ 1,095,442</u>	<u>\$ -</u>	<u>\$ 1,095,442</u>	<u>\$ 116,522</u>	<u>\$ 54,729</u>	<u>\$ 171,251</u>	<u>\$ 1,266,693</u>	<u>\$ 612,571</u>

**BRONX CHARTER SCHOOL FOR EXCELLENCE AND
EXCELLENCE COMMUNITY SCHOOLS, INC.**

REPORT REQUIRED BY GOVERNMENT AUDITING STANDARDS

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

Board of Trustees
Bronx Charter School for Excellence
Excellence Community Schools, Inc.

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 Excellence Community Schools Inc. which comprise the combined statement of financial position as of June 30, 2016 and the related combined statements of activities and changes in net assets, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 27, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the combined financial statements, we considered Bronx Charter School for Excellence and Excellence Community Schools Inc.'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 Bronx Charter School for Excellence and Excellence Community Schools Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of Bronx Charter School for Excellence and Excellence Community Schools Inc.'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 combined 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Bronx Charter School for Excellence and Excellence Community Schools Inc.'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 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 have reported to management of Bronx Charter School for Excellence and Excellence Community Schools, Inc. in a separate letter dated October 27, 2016.

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 Bronx Charter School for Excellence and Excellence Community Schools, Inc.'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 Bronx Charter School for Excellence and Excellence Community Schools, Inc.'s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Mengel, Metzger, Barw & Co. LLP

Rochester, New York
October 27, 2016

BRONX CHARTER SCHOOL FOR EXCELLENCE

AGREED UPON PROCEDURES

YEAR ENDED JUNE 30, 2016



MENGEL METZGER BARR & CO. LLP

Certified Public Accountants

INDEPENDENT ACCOUNTANT’S REPORT ON CSP FUNDING

Board of Trustees
Bronx Charter School for Excellence

We have performed the procedures identified below, which were agreed to by the management of Bronx Charter School for Excellence (the “Charter School”) and the New York State Education Department (“NYSED”), solely to assist the specified parties in evaluating the Charter School’s assertion to NYSED that it has maintained compliance with the requirements of the CSP grant and Federal and NYSED guidelines in managing the CSP grant.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures we performed and our results are as follows:

Procedure No. 1: We will obtain the detail of expenditures incurred for the period under review relating to the CSP grant from the Charter School’s accounting software and reconcile to the grant revenue recorded by the Charter School. If the CSP grant revenue does not equal the grant expenditures, we will investigate the differences.

Result

We obtained the detail of expenditures incurred for the period under review relating to the CSP grant from the Charter School’s accounting software and the grant revenue recorded by the Charter School. We observed that the CSP grant revenue equaled the grant expenditures.

Procedure No. 2: We will obtain the NYSED approved CSP grant award information, including the budget and any amendments, to determine if the revenue and expenditures recorded for the period appear reasonable.

Result

We observed the Charter School’s approved FS-10, FS-10F and final expenditure summary, and it appears that revenue and expenditures in the period are reasonable.

Procedure No. 3: We will select a sample of expenditures from the detail obtained in Procedure No. 1.

- a. Payroll – We will select 10 items or 10% of the total number of payroll items charged to the grant, whichever is less.
- b. Other expenses – We will select 10 items or 10% of the total number of other expense items charged to the grant, whichever is less.
- c. Using the above selected items, we will:
 - i. Determine if the expenditure is in accordance with the purpose of the grant and that pre-opening expenditures are charged to pre-opening periods.
 - ii. Determine if the expenditure falls into an approved budget category.
 - iii. Determine if the expenditure was charged to the appropriate fiscal period.

Result

We selected a sample two payroll items and two other expenditures. Based on our testing, we noted that the payroll items and expenditures fall into the appropriate budget category and that the payroll items and expenditures were charged to the appropriate fiscal period. For all selections, we observed that the payroll items and expenditures were in accordance with the purpose of the grant and that pre-opening payroll items and expenditures are charged to pre-opening periods.

Procedure No. 4: We will obtain FS-25 form(s) submitted to NYSED during the period under review and perform the following:

- a. Trace expenditures selected in Procedure No. 3 to requests for reimbursement. Determine that items requested for reimbursement had previously been expended or were expended within a month following the request for reimbursement. If items have not yet been requested for reimbursement, inquire of responsible charter school officials as to the plan for requesting reimbursement, and determine if a receivable is recorded, if appropriate.
- b. If FS-25 forms included amounts on Line 4 (Cash Expenditures Anticipated During Next Month), we will determine if funds were expended within 1 month following the date of the request and is at least the amount shown on Line 4.

Result

We obtained Bronx Charter School for Excellence 1's FS-25s and noted the selected items were appropriately included in the request for reimbursement. The requests for reimbursement appear to be in the appropriate period. The FS-25 forms did not include amounts on Line 4 (Cash Expenditures Anticipated During Next Month), therefore testing was not applicable.

There were no FS-25s filed during the year ended June 30, 2016 for Bronx Charter School for Excellence 2. We observed the FS-10F filed, noting all expenses appeared properly included. As there were no FS-25s filed in the period of testing, Line 4 (Cash Expenditures Anticipated During Next Month) testing was not applicable.

Procedure No. 5: For schools with a weighted lottery during the period under review we will:

- a. Obtain documentation that the school received permission from the NYSED Charter School Office for the weighted lottery.
- b. Obtain the results of the weighted lottery.

Result

We noted that the Charter School does not have a weighted lottery, therefore this testing was not applicable.

We were not engaged to, and did not, conduct an examination, the objective of which would be the expression of an opinion on the Charter School's compliance with the requirements of the CSP grant. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the use of Bronx Charter School for Excellence and the New York State Education Department, and it is not intended to be and should not be used by anyone other than the specified parties.

Mengel, Metzger, Barw & Co. LLP

Rochester, New York
October 6, 2016

**BRONX CHARTER SCHOOL FOR EXCELLENCE AND
EXCELLENCE COMMUNITY SCHOOLS, INC.**

ADVISORY COMMENT LETTER

JUNE 30, 2016



MENGEL METZGER BARR & CO. LLP

Certified Public Accountants

October 27, 2016

To the Board of Trustees
Bronx Charter School for Excellence
Excellence Community Schools, Inc.

In planning and performing our audit of the combined financial statements of Bronx Charter School for Excellence and Excellence Community Schools, Inc. as of and for the year ended June 30, 2016, in accordance with auditing standards generally accepted in the United States of America, we considered Bronx Charter School for Excellence and Excellence Community Schools, Inc.'s internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the combined financial statements, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we do not express an opinion on the effectiveness of Bronx Charter School for Excellence and Excellence Community Schools, Inc.'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.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses. 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.

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This communication is intended solely for the information and use of Management, Finance Committee Members, others within the organization, and governmental authorities and is not intended to be, and should not be, used by anyone other than these specified parties.

We appreciated the outstanding cooperation from your staff that our personnel received during the audit of Bronx Charter School for Excellence and Excellence Community Schools, Inc.'s financial statements. Should you have any question or comments, please contact Michelle Cain or Kate Welc.

Very truly yours,

Mengel, Metzger, Barr & Co. LLP

MENGEL, METZGER, BARR & CO. LLP