

Bronx Charter School for Excellence and Affiliate

Combined Financial Report

June 30, 2011

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Independent Auditor's Report

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

We have audited the accompanying combined statement of financial position of Bronx Charter School for Excellence and Affiliate (the "Organization") as of June 30, 2011, and the related combined statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior-year summarized comparative information has been derived from the Organization's 2010 financial statements and in our report, dated October 21, 2010, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of Bronx Charter School for Excellence and Affiliate as of June 30, 2011, and their changes in net assets and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was made for the purpose of forming an opinion on the basic combined financial statements taken as a whole. The combining information is presented for purposes of additional analysis of the basic combined financial statements rather than to present the financial position and changes in net assets of the individual entities. The combining information has been subjected to the auditing procedures applied in the audit of the basic combined financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic combined financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report, dated October 18, 2011, on our consideration of the Organization's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and on compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

McGladrey & Pullen, LLP

New York, New York
October 18, 2011

Bronx Charter School for Excellence and Affiliate

**Combined Statements of Financial Position
June 30, 2011 and 2010**

	2011	2010
ASSETS		
Cash and Cash Equivalents (Note 1)	\$ 2,105,088	\$ 1,763,052
Contributions and Other Receivables (Notes 1 and 2)	149,908	161,689
Prepaid Expenses and Other Assets (Note 10)	255,228	129,633
Deferred Leasing Commissions (Note 1)	336,242	350,252
Property and Equipment, net (Notes 1 and 3)	<u>2,144,370</u>	<u>1,822,337</u>
Total assets	<u>\$ 4,990,836</u>	<u>\$ 4,226,963</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	\$ 605,032	\$ 423,998
Note payable (Note 4)	-	15,291
Due to DOE	-	26,358
Deferred rent (Note 5)	<u>3,033,156</u>	<u>2,637,005</u>
Total liabilities	<u>3,638,188</u>	<u>3,102,652</u>
Commitments and Contingency (Notes 5, 9 and 10)		
Net Assets:		
Unrestricted (Note 1)	1,352,648	1,024,311
Temporarily restricted (Notes 1 and 8)	<u>-</u>	<u>100,000</u>
Total net assets	<u>1,352,648</u>	<u>1,124,311</u>
Total liabilities and net assets	<u>\$ 4,990,836</u>	<u>\$ 4,226,963</u>

See Notes to Combined Financial Statements.

Bronx Charter School for Excellence and Affiliate

Combined Statements of Activities

(with summarized comparative financial information for the year ended June 30, 2010)

Years Ended June 30, 2011 and 2010

	2011		2010	
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>	<u>Summarized Total</u>
Operating Revenue:				
State and local per pupil operating revenue (Note 1)	\$ 5,589,867	\$ -	\$ 5,589,867	\$ 4,300,314
Government grants and contracts (Note 1)	<u>226,049</u>	<u>-</u>	<u>226,049</u>	<u>236,554</u>
Total operating revenue	<u>5,815,916</u>	<u>-</u>	<u>5,815,916</u>	<u>4,536,868</u>
Operating Expenses:				
Program services - School operations	4,689,007	-	4,689,007	3,675,783
General and administrative (Note 5)	<u>1,015,698</u>	<u>-</u>	<u>1,015,698</u>	<u>1,749,646</u>
Total operating expenses (Notes 5, 6 and 7)	<u>5,704,705</u>	<u>-</u>	<u>5,704,705</u>	<u>5,425,429</u>
Surplus (deficit) from operations	<u>111,211</u>	<u>-</u>	<u>111,211</u>	<u>(888,561)</u>
Support and Other Revenue:				
Contributions (Note 1):				
Foundations	32,500	-	32,500	89,047
Corporations	-	-	-	2,738
Individuals	37,567	-	37,567	37,435
Donated goods	1,353	-	1,353	24,393
Other contributions and grants (inclusive of receipts amounting to \$70,177 and \$0, respectively, from special event)	70,177	-	70,177	-
Interest income	2,557	-	2,557	5,772
Miscellaneous income	14,396	-	14,396	12,292
Net assets released from satisfaction of purpose and time restrictions (Note 8)	100,000	(100,000)	-	-
Fund-raising expenses (inclusive of direct costs amounting to \$35,867 and \$0, respectively, from special event)	<u>(41,424)</u>	<u>-</u>	<u>(41,424)</u>	<u>(5,317)</u>
Total support and other revenue	<u>217,126</u>	<u>(100,000)</u>	<u>117,126</u>	<u>166,360</u>
Change in net assets	328,337	(100,000)	228,337	(722,201)
Net Assets:				
Beginning	<u>1,024,311</u>	<u>100,000</u>	<u>1,124,311</u>	<u>1,846,512</u>
Ending	<u>\$ 1,352,648</u>	<u>\$ -</u>	<u>\$ 1,352,648</u>	<u>\$ 1,124,311</u>

See Notes to Combined Financial Statements.

Bronx Charter School for Excellence and Affiliate

Combined Statements of Functional Expenses
(with summarized comparative financial information for the year ended June 30, 2010)
Years Ended June 30, 2011 and 2010

	2011				2010	
	Program Services - School Operations	General and Administrative	Fund- Raising	Total Supporting Services	Total	Summarized Total
Personnel expenses:						
Payroll	\$ 2,284,597	\$ 418,196	\$ 2,794	\$ 420,990	\$ 2,705,587	\$ 2,149,767
Payroll taxes and benefits	493,738	90,659	608	91,267	585,005	445,329
Rent (Note 5)	909,525	128,231	1,141	129,372	1,038,897	902,401
Academic programs	222,951	-	-	-	222,951	183,844
Property development studies	-	77,293	-	77,293	77,293	6,538
Facility maintenance and security	279,421	50,930	341	51,271	330,692	247,521
Utilities	91,557	16,688	112	16,800	108,357	51,519
Consultants and substitute teachers	5,027	53,682	-	53,682	58,709	46,245
Loan interest	-	-	-	-	-	4,831
Professional fees	80,721	99,205	99	99,304	180,025	151,980
Depreciation and amortization	157,721	42,758	193	42,951	200,672	100,124
Insurance	26,500	8,387	32	8,419	34,919	33,206
Office and other	124,284	23,494	221	23,715	147,999	97,049
Telephone and Internet	12,965	2,363	16	2,379	15,344	7,819
Fund-raising expenses	-	-	35,867	35,867	35,867	-
Bad debt expense	-	3,812	-	3,812	3,812	-
Loss on option premium deposit (Note 5)	-	-	-	-	-	1,002,573
	<u>\$ 4,689,007</u>	<u>\$ 1,015,698</u>	<u>\$ 41,424</u>	<u>\$ 1,057,122</u>	<u>\$ 5,746,129</u>	<u>\$ 5,430,746</u>

See Notes to Combined Financial Statements.

Bronx Charter School for Excellence and Affiliate

**Combined Statements of Cash Flows
Years Ended June 30, 2011 and 2010**

	2011	2010
Cash Flows From Operating Activities:		
Change in net assets	\$ 228,337	\$ (722,201)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	200,672	100,124
Deferred rent	396,151	527,401
Bad debt expense	3,812	-
Loss on option premium	-	1,002,573
Changes in operating assets and liabilities:		
Decrease in contributions and other receivables	7,969	148,049
Increase in prepaid expenses and other assets	(125,595)	(3,322)
Increase in accounts payable and accrued expenses	181,034	43,726
(Decrease) increase in due to DOE	(26,358)	26,358
Net cash provided by operating activities	866,022	1,122,708
Cash Flows From Investing Activities:		
Payments made on leasehold improvements	(404,014)	-
Purchases of property and equipment	(104,681)	(9,747)
Cash used in investing activities	(508,695)	(9,747)
Cash Flows Used in Financing Activity - principal payments on note payable		
	(15,291)	(164,074)
Net increase in cash and cash equivalents	342,036	948,887
Cash and Cash Equivalents:		
Beginning	1,763,052	814,165
Ending	\$ 2,105,088	\$ 1,763,052
Supplemental Disclosure of Cash Flow information:		
Cash paid during the year for interest	\$ -	\$ 4,831

See Notes to Combined Financial Statements.

Bronx Charter School for Excellence and Affiliate

Notes to Combined Financial Statements

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

Nature of Operations: The Bronx Charter School for Excellence (the "School") is an educational corporation that operates a charter school in the borough of the Bronx, New York. The School was granted a provisional charter on April 29, 2003 valid for a term of five years and renewable upon expiration by the Board of Regents of the University of the State of New York. In March 2009, the School was awarded a full-term, five-year charter renewal to March 2014. The School was established to prepare young people from New York City to compete for admission to, and succeed in, top public, private and parochial schools by cultivating their intellectual, artistic, social, emotional and ethical development. The School offers a challenging and rigorous academic curriculum which, at the earliest of grades, has an eye towards college preparation.

In fiscal year 2011, the School operated classes for students in kindergarten and grades 1 through 6.

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 2011, Friends was making new efforts to raise additional funds to support the School. For the period from fiscal 2007 through fiscal 2010, Friends continued to repay outstanding loan balances taken out to fund the option premium deposit.

Principles of Combination: The School and Friends are under common management and share many of the same trustees as well as a common goal of improving the educational opportunities for school-aged children. Accordingly, the accompanying combined financial statements include the accounts of the School and Friends (collectively referred to as the "Organization"). All intercompany accounts and transactions between these entities have been eliminated.

Basis of Accounting: The combined financial statements of the Organization have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. Accordingly, net assets are classified as unrestricted, temporarily restricted or permanently restricted based on the designation of the donors.

The combined statements of activities and functional expenses include certain prior-year summarized comparative information in total but not by net asset class or functional classification. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Organization's combined financial statements for the year ended June 30, 2010 from which the summarized information was derived.

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

Cash and Cash Equivalents: The Organization maintains cash in bank deposit accounts which, at times, may exceed federally insured limits. The Organization has not experienced any losses in such accounts.

The Organization considers all highly liquid instruments purchased with a maturity of three months or less to be cash equivalents. Cash equivalents consist of money market accounts.

Bronx Charter School for Excellence and Affiliate

Notes to Combined Financial Statements

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

Deferred Leasing Commissions: A leasing consultant assisted the Organization with locating a new facility for the School's instructional and office space and negotiating the terms of the triple net lease agreement. Leasing commissions amounting to \$420,302 for these services rendered were provided at no charge during the year ended June 30, 2005. The Organization has capitalized these commissions and reflected them as deferred leasing commissions in the accompanying combined statements of financial position. These deferred costs are amortized on the straight-line basis over the life of the lease.

Property and Equipment: Property and equipment is recorded at cost. The Organization capitalizes all purchases of fixed assets in excess of \$5,000. Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets. Leasehold improvements are amortized over the shorter of the estimated useful life of the asset or the remaining term of the related lease. Property and equipment acquired with certain government contract funds are recorded as expenses when the grantor retains title.

Operating Revenue: Revenue from the federal, state and local governments resulting from the School's charter status and based on the number of students enrolled is recorded when services are performed in accordance with the charter agreement. Federal and state funds are recorded by the School when expenditures are incurred and billable. Cash received in excess of revenue recognized is recorded as refundable advances from state and local government grants.

Revenue from other government grants to which the School is entitled is recognized mostly on student enrollment. Some grants are provided for specific educational endeavors and the building renovation project which are not based on student enrollment and are recorded when related expenditures are incurred by the School.

Contributions and Contributed Services: The New York City Department of Education (the "DOE") provides transportation and the federal government provides funding for free and reduced-cost breakfasts, lunches and snacks directly to a majority of the School's students. Such costs are not included in these financial statements.

Contributions are recognized as revenue in the year the pledge promise is received and documented. Contributions and unconditional promises to give are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support, which increases those net asset classes. When the specified purpose of donor-restricted contributions is met, the net asset is released from restrictions and transferred to unrestricted net assets. Contributions of assets other than cash are recorded at their estimated fair value.

Contributed services are recorded at their fair value when such services are rendered. Contributed services are recognized as contributions if the services: (a) create or enhance nonfinancial assets, or (b) require specialized skills, are performed by people with those skills and would otherwise be purchased by the Organization.

A number of volunteers have made a contribution of their time to the Organization to develop its academic and other programs and to serve on both entities' boards of trustees. The value of this contributed time is not reflected in these combined financial statements since it does not meet the criteria for recognition.

Income Taxes: The School and Friends are exempt from federal income taxes under Section 501(a) of the Internal Revenue Code (the "Code") as organizations formed for charitable purposes under Section 501(c)(3) of the Code and, accordingly, are not subject to income taxes. Additionally, the School and Friends as nonprofit entities are subject to unrelated business income tax ("UBIT"), if applicable. For the tax years ended June 30, 2011 and 2010, the School and Friends did not owe any UBIT.

Bronx Charter School for Excellence and Affiliate

Notes to Combined Financial Statements

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

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 this guidance. Generally, the Organization is no longer subject to income tax examinations by U.S. federal, state or local tax authorities for years before 2007, which is the standard statute of limitations look-back period.

The Organization evaluates events occurring after the date of the financial statements to consider whether or not the impact of such events needs to be reflected and/or disclosed in the financial statements. Such evaluation is performed through the date the financial statements are available for issuance, which was October 18, 2011 for these combined financial statements.

Note 2. Contributions and Other Receivables

As of June 30, 2011 and 2010, contributions and other receivables amounted to \$149,908 and \$161,689, respectively. Contributions and other receivables include receivables from government contracts and unconditional promises to give. These receivables are due within one year.

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

Note 3. Property and Equipment, Net

Property and equipment, net, at cost or fair market value at date of donation, consists of the following at June 30, 2011 and 2010:

	<u>2011</u>	<u>2010</u>	<u>Estimated Useful Life</u>
Computer and other equipment	\$ 174,162	\$ 132,182	5 years
Furniture and fixtures	146,912	84,211	5 years
Leasehold improvements	<u>2,411,762</u>	<u>2,007,748</u>	Shorter of lease term or 30 years
	2,732,836	2,224,141	
Less accumulated depreciation and amortization	<u>(588,466)</u>	<u>(401,804)</u>	
	<u>\$ 2,144,370</u>	<u>\$ 1,822,337</u>	

Note 4. Note Payable

The note payable amounted to \$0 and \$15,291 as of June 30, 2011 and 2010, respectively. The note payable bore interest at an annual rate of 5.0% and was payable in 24 monthly principal and interest installments of \$15,355. Friends had the option to prepay any or all of the principal at any time before the maturity date with no penalty; otherwise, the principal was due at the maturity date. Interest expense amounted to \$0 and \$4,831 for the years ended June 30, 2011 and 2010, respectively.

Bronx Charter School for Excellence and Affiliate

Notes to Combined Financial Statements

Note 5. Commitments

Friends entered into a 30-year noncancelable operating lease agreement with an unrelated third party for a facility in the Bronx, New York. On July 1, 2005, Friends entered into a sublease agreement with the School, whereby the School assumes all obligations pertaining to Friends' lease agreement. As an inducement for Friends to enter into this lease agreement, the School has funded \$1,547,149 in leasehold improvements made to convert the leased space for use as an educational facility.

In June 2010, a lease option deposit pertaining to the above facility had expired and the related loss on option premium deposit amounted to \$1,002,573.

In addition, the School entered into a four-year operating lease agreement not cancelable for three years with an unrelated third party for a facility in the Bronx, New York in August 2010. This facility is to be used to operate classes for students in grades 5 through 8. This lease provides a leasehold incentive (work credit) of \$78,173 for costs to be incurred by the School to renovate the exterior of the building providing space for its middle school. The work credit will be amortized against the base rent on a monthly basis during the entire term of this lease. In conjunction with this lease agreement, the School also entered into a separate contractual arrangement with a contractor to complete interior and exterior renovation work at an estimated cost of approximately \$329,000. Actual costs incurred were approximately \$396,000 for the year ended June 30, 2011. These costs are included in property and equipment in the June 30, 2011 combined statement of financial position, and are being amortized over the life of the lease.

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

<u>Year Ending</u>	<u>1960 Benedict Avenue</u>	<u>1804 Holland Avenue</u>	<u>Total</u>
2012	\$ 506,250	\$ 148,905	\$ 655,155
2013	506,250	148,905	655,155
2014	506,250	148,905	655,155
2015	506,250	12,409	518,659
2016	683,438	-	683,438
Thereafter	<u>21,982,347</u>	<u>-</u>	<u>21,982,347</u>
	<u>\$ 24,690,785</u>	<u>\$ 459,124</u>	<u>\$ 25,149,909</u>

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

Deferred rent consists of the excess of the rental expenses on a straight-line basis over the payment required by the lease. Rent expenses amounted to \$1,038,897 and \$902,401 for the fiscal years ended June 30, 2011 and 2010, respectively, which includes noncash deferred rent adjustments of \$396,151 and \$527,401 for the fiscal years ended June 30, 2011 and 2010, respectively.

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, 2011 and 2010, employer matching contributions in connection with this plan amounted to approximately \$62,000 and \$55,000, respectively, net of forfeitures.

Bronx Charter School for Excellence and Affiliate

Notes to Combined Financial Statements

Note 7. Operating Expenses

Operating expenses are presented in the combined statements of functional expenses classified according to the significant program activity related to the purpose for which the School exists or supporting services.

The significant activities are:

School Operations: Represents work (time and materials) that is specifically related to or necessary for the programming aspects of the School. If the activities and related costs directly affect students or parents, then 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 program including but not limited to annual mailings, donor meetings and events.

Note 8. Temporarily Restricted Net Assets

Temporarily restricted net assets of \$0 and \$100,000 represent time restrictions for future periods as of June 30, 2011 and 2010, respectively. During fiscal year 2011, the School released \$100,000 of time-restricted net assets for current use.

Note 9. Contingency

Certain grants and contracts may be subject to audit by funding sources. Such audits might result in disallowances of costs submitted for reimbursement. Management is of the opinion that such cost disallowances, if any, will not have a material effect on the accompanying combined financial statements. Accordingly, no amounts have been provided in the accompanying combined financial statements for such potential claims.

Note 10. Subsequent Events

On June 24, 2011, the Organization entered into a contractual agreement (the "Agreement") with an unrelated third party to purchase the land and building situated at 2000 Benedict Avenue, Bronx, New York, which is adjacent to its elementary school. The purchase price was \$875,000 and the Organization intends to use this facility as its middle school.

The Agreement required the Organization to make an initial payment of \$100,000 to be held in an escrow account until the transaction closed. This payment is included in prepaid expenses and other assets in the June 30, 2011 combined statement of financial position.

The remaining balance of \$775,000 was paid in full on August 3, 2011, at the contract closing. In connection with the closing, the Organization incurred legal and title search fees aggregating approximately \$20,000.



Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

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

We have audited the combined financial statements of Bronx Charter School for Excellence and Affiliate (the "Organization") as of and for the year ended June 30, 2011, and have issued our report thereon dated October 18, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

We noted certain matters that we reported to the management of Bronx Charter School for Excellence and Affiliate in a separate letter dated October 18, 2011.

This report is intended solely for the information and use of the finance committee, board of trustees, management, the New York State Education Department and the Charter Schools Institute of the State University of New York and is not intended to be, and should not be, used by anyone other than these specified parties.

McGladrey & Pullen, LLP

New York, New York
October 18, 2011

Bronx Charter School for Excellence and Affiliate

Supplementary Information

Combining Statements of Financial Position
 (with summarized comparative financial information as of June 30, 2010)
 June 30, 2011 and 2010
 See Auditor's Report

	2011			2010	
	Bronx Charter School for Excellence	Friends of Bronx Charter School for Excellence, Inc.	Eliminations	Total	Summarized Total
ASSETS					
Cash and Cash Equivalents (Note 1)	\$ 2,055,094	\$ 49,994	\$ -	\$ 2,105,088	\$ 1,763,052
Contributions and Other Receivables (Notes 1 and 2)	149,908	-	-	149,908	161,689
Due From Affiliate	88,764	-	(88,764)	-	-
Prepaid Expenses and Other Assets (Note 10)	253,762	1,466	-	255,228	129,633
Deferred Leasing Commissions (Note 1)	-	336,242	-	336,242	350,252
Property and Equipment, net (Notes 1 and 3)	2,144,370	-	-	2,144,370	1,822,337
Total assets	\$ 4,691,898	\$ 387,702	\$ (88,764)	\$ 4,990,836	\$ 4,226,963
LIABILITIES AND NET ASSETS					
Liabilities:					
Accounts payable and accrued expenses	\$ 605,032	\$ -	\$ -	\$ 605,032	\$ 423,998
Note payable (Note 4)	-	-	-	-	15,291
Due to DOE	-	-	-	-	26,358
Deferred rent (Note 5)	3,033,156	-	-	3,033,156	2,637,005
Due to affiliate	-	88,764	(88,764)	-	-
Total liabilities	3,638,188	88,764	(88,764)	3,638,188	3,102,652
Commitments and Contingency (Notes 5, 9 and 10)					
Net Assets:					
Unrestricted (Note 1)	1,053,710	298,938	-	1,352,648	1,024,311
Temporarily restricted (Notes 1 and 8)	-	-	-	-	100,000
Total net assets	1,053,710	298,938	-	1,352,648	1,124,311
Total liabilities and net assets	\$ 4,691,898	\$ 387,702	\$ (88,764)	\$ 4,990,836	\$ 4,226,963

Bronx Charter School for Excellence and Affiliate

Supplementary Information

Combining Statements of Activities

(with summarized comparative financial information for the year ended June 30, 2010)

Years Ended June 30, 2011 and 2010

See Auditor's Report

	2011		2010	
	<u>Bronx Charter School for Excellence</u>	<u>Friends of Bronx Charter School for Excellence, Inc.</u>	<u>Total</u>	<u>Summarized Total</u>
Operating Revenue:				
State and local per pupil operating revenue (Note 1)	\$ 5,589,867	\$ -	\$ 5,589,867	\$ 4,300,314
Government grants and contracts (Note 1)	226,049	-	226,049	236,554
Total operating revenue	<u>5,815,916</u>	<u>-</u>	<u>5,815,916</u>	<u>4,536,868</u>
Operating Expenses:				
Program services - School operations	4,689,007	-	4,689,007	3,675,783
General and administrative (Note 5)	983,607	32,091	1,015,698	1,749,646
Total operating expenses (Notes 5, 6 and 7)	<u>5,672,614</u>	<u>32,091</u>	<u>5,704,705</u>	<u>5,425,429</u>
Surplus (deficit) from operations	<u>143,302</u>	<u>(32,091)</u>	<u>111,211</u>	<u>(888,561)</u>
Support and Other Revenue:				
Contributions (Note 1):				
Foundations	32,500	-	32,500	89,047
Corporations	-	-	-	2,738
Individuals	22,498	15,069	37,567	37,435
Donated goods	1,353	-	1,353	24,393
Other contributions and grants (inclusive of receipts amounting to \$70,177 and \$0, respectively, from special events)	-	70,177	70,177	-
Interest income	2,557	-	2,557	5,772
Miscellaneous income	14,208	188	14,396	12,292
Fund-raising expenses (inclusive of direct costs amounting to \$35,867, and \$0, respectively, from special event)	(5,481)	(35,943)	(41,424)	(5,317)
Total support and other revenue	<u>67,635</u>	<u>49,491</u>	<u>117,126</u>	<u>166,360</u>
Change in net assets	210,937	17,400	228,337	(722,201)
Net Assets:				
Beginning	<u>842,773</u>	<u>281,538</u>	<u>1,124,311</u>	<u>1,846,512</u>
Ending	<u>\$ 1,053,710</u>	<u>\$ 298,938</u>	<u>\$ 1,352,648</u>	<u>\$ 1,124,311</u>

Bronx Charter School for Excellence and Affiliate

Supplementary Information

**Statements of Functional Expenses - Bronx Charter School for Excellence
(with summarized comparative financial information for the year ended June 30, 2010)
Years Ended June 30, 2011 and 2010
See Auditor's Report**

	2011				2010	
	Program Services - School Operations	General and Administrative	Fund- Raising	Total Supporting Services	Total	Summarized Total
Personnel expenses:						
Payroll	\$ 2,173,263	\$ 391,790	\$ 2,596	\$ 394,386	\$ 2,567,649	\$ 2,147,452
Payroll taxes and benefits	605,072	109,587	730	110,317	715,389	443,223
Rent (Note 5)	909,525	128,231	1,141	129,372	1,038,897	902,401
Academic programs	222,951	-	-	-	222,951	183,844
Property development studies	-	77,293	-	77,293	77,293	6,538
Facility maintenance and security	279,421	50,930	341	51,271	330,692	247,521
Utilities	91,557	16,688	112	16,800	108,357	51,519
Consultants and substitute teachers	5,027	53,682	-	53,682	58,709	46,245
Professional fees	80,721	92,480	99	92,579	173,300	151,980
Depreciation and amortization	157,721	28,748	193	28,941	186,662	86,114
Insurance	26,500	7,109	32	7,141	33,641	31,802
Office and other	124,284	20,894	221	21,115	145,399	95,140
Telephone and Internet	12,965	2,363	16	2,379	15,344	7,819
Bad debt expense	-	3,812	-	3,812	3,812	-
	<u>\$ 4,689,007</u>	<u>\$ 983,607</u>	<u>\$ 5,481</u>	<u>\$ 989,088</u>	<u>\$ 5,678,095</u>	<u>\$ 4,401,598</u>

Bronx Charter School for Excellence and Affiliate

Supplementary Information

Statements of Functional Expenses - Friends of Bronx Charter School for Excellence, Inc.
 (with summarized comparative financial information for the year ended June 30, 2010)
 Years Ended June 30, 2011 and 2010
 See Auditor's Report

	2011				2010	
Program Services - Support to Bronx Charter School for Excellence	General and Administrative	Fund-Raising	Total Supporting Services	Total	Summarized Total	
Personnel expenses:						
Payroll	\$ -	\$ 6,113	\$ 62	\$ 6,175	\$ 2,315	
Payroll taxes and benefits	-	1,365	14	1,379	2,106	
Loan interest	-	-	-	-	4,831	
Professional fees	-	6,725	-	6,725	-	
Depreciation and amortization	-	14,010	-	14,010	14,010	
Insurance	-	1,278	-	1,278	1,404	
Office and other	-	2,600	-	2,600	1,909	
Fund-raising expenses	-	-	35,867	35,867	-	
Loss on option premium deposit (Note 5)	-	-	-	-	1,002,573	
	<u>\$ -</u>	<u>\$ 32,091</u>	<u>\$ 35,943</u>	<u>\$ 68,034</u>	<u>\$ 1,029,148</u>	