

BRONX SUCCESS ACADEMY CHARTER SCHOOL 1

(A Not-For-Profit Corporation)

FINANCIAL STATEMENTS

JUNE 30, 2012 AND 2011

BRONX SUCCESS ACADEMY CHARTER SCHOOL 1
(A Not-For-Profit Corporation)
FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

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INDEPENDENT AUDITORS' REPORT

TO THE BOARD OF TRUSTEES
BRONX SUCCESS ACADEMY CHARTER SCHOOL 1

We have audited the accompanying statement of financial position of Bronx Success Academy Charter School 1 (the "School") (a not-for-profit corporation) as of June 30, 2012, and the related statements of activities, and cash flows for the year then ended. These financial statements are the responsibility of the School'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 School's 2011 financial statements and, in our report dated September 23, 2011, we expressed an unqualified opinion on those financial statements.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the School as of June 30, 2012, and the changes in its net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 23, 2012 on our consideration of the School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. 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 read in conjunction with this report in considering the results of our audit.


FRUCHTER ROSEN & COMPANY, P.C.
Certified Public Accountants

New York, New York
October 23, 2012

BRONX SUCCESS ACADEMY CHARTER SCHOOL 1
(A Not-For-Profit Corporation)
STATEMENTS OF FINANCIAL POSITION
JUNE 30,

	2012	2011
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,906,028	\$ 1,167,550
Grants and contracts receivable	142,097	427,269
Prepaid expenses	-	794
Total current assets	2,048,125	1,595,613
Property and equipment, net of accumulated depreciation and amortization of \$292,468 and \$48,744, respectively	251,569	324,060
Restricted cash	50,192	25,049
TOTAL ASSETS	\$ 2,349,886	\$ 1,944,722
 LIABILITIES AND UNRESTRICTED NET ASSETS		
Current liabilities:		
Accounts payable and accrued expenses	\$ 14,836	\$ 82,373
Accrued payroll and payroll taxes	57,040	103,033
Due to related party	99,246	81,066
Total current liabilities	171,122	266,472
Loan payable - related party	250,000	250,000
Total liabilities	421,122	516,472
Unrestricted net assets	1,928,764	1,428,250
TOTAL LIABILITIES AND UNRESTRICTED NET ASSETS	\$ 2,349,886	\$ 1,944,722

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

BRONX SUCCESS ACADEMY CHARTER SCHOOL 1
(A Not-For-Profit Corporation)
STATEMENTS OF ACTIVITIES

	<u>For the year ended June 30, 2012</u>	<u>For the period from February 17, 2010 (inception) to June 30, 2011</u>
Revenue and support:		
State and local per pupil operating revenue	\$ 3,583,037	\$ 2,662,355
Federal grants	237,022	754,951
State and city grants	-	132,460
Contributions and private grants	20,000	862,800
Donated services	-	74,714
Interest income	318	163
	<u>3,840,377</u>	<u>4,487,443</u>
Expenses:		
Program services		
Regular education	2,261,493	2,035,334
Special education	484,317	518,206
Total program services	<u>2,745,810</u>	<u>2,553,540</u>
Supporting service		
Management and general	<u>594,053</u>	<u>505,653</u>
Total expenses	<u>3,339,863</u>	<u>3,059,193</u>
Changes in net assets	500,514	1,428,250
Unrestricted net assets - beginning of period	<u>1,428,250</u>	<u>-</u>
Unrestricted net assets - end of period	<u>\$ 1,928,764</u>	<u>\$ 1,428,250</u>

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

BRONX SUCCESS ACADEMY CHARTER SCHOOL 1
(A Not-For-Profit Corporation)
STATEMENTS OF CASH FLOWS

	<u>For the year ended June 30, 2012</u>	<u>For the period from February 17, 2010 (inception) to June 30, 2011</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in unrestricted net assets	\$ 500,514	\$ 1,428,250
Adjustments to reconcile change in unrestricted net assets to net cash provided by operating activities:		
Depreciation and amortization	174,080	48,744
Loss on abandonment of property and equipment	69,644	-
Changes in certain assets and liabilities:		
Decrease (Increase) in grants and contracts receivable	285,172	(427,269)
Decrease (Increase) in prepaid expenses	794	(794)
(Increase) in restricted cash	(25,143)	(25,049)
(Decrease) Increase in accounts payable and accrued expenses	(67,537)	82,373
(Decrease) Increase in accrued payroll and payroll taxes	(45,993)	103,033
Increase in due to related party	18,180	81,066
	<u>909,711</u>	<u>1,290,354</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES		
CASH FLOWS FROM INVESTING ACTIVITY		
Purchases of property and equipment	<u>(171,233)</u>	<u>(372,804)</u>
CASH FLOWS FROM FINANCING ACTIVITY		
Proceeds from loan payable - related party	<u>-</u>	<u>250,000</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	738,478	1,167,550
CASH AND CASH EQUIVALENTS - BEGINNING OF PERIOD	<u>1,167,550</u>	<u>-</u>
CASH AND CASH EQUIVALENTS - END OF PERIOD	<u>\$ 1,906,028</u>	<u>\$ 1,167,550</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the year for interest	<u>\$ 8,125</u>	<u>\$ 4,063</u>

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

BRONX SUCCESS ACADEMY CHARTER SCHOOL 1
(A Not-For-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

NOTE 1 - PRINCIPAL BUSINESS ACTIVITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization

Bronx Success Academy Charter School 1 (the “School”) is a New York State, not-for-profit educational corporation that was incorporated on February 17, 2010 to operate a Charter School pursuant to Article 56 of the Education Law of the State of New York. The School was granted a provisional charter on February 17, 2010 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. The School is dedicated to providing a high quality education to primarily disadvantaged students; to prevent the achievement gap from rising. Classes commenced in the Bronx, New York, in August 2010 and the School provided education to approximately 245 students in grades kindergarten through second during the 2011-2012 academic year.

The School shares space with a New York City public school beginning in August 2010. The School is not responsible for rent, utilities, custodial services, maintenance and school safety services other than security related to the School’s programs that take place outside the district’s school day.

Food Service

The New York City Department of Education provides free lunches to a majority of the School’s students. Such costs are not included in these financial statements. The School covers the cost of lunches for children not entitled to the free lunches.

Tax Status

The School is exempt from Federal income tax under Section 501(a) of the Internal Revenue Code as an organization described in Section 501(c)(3) and a similar provision under New York State income tax laws. The School has also been classified as an entity that is not a private foundation within the meaning of Section 509(a) and qualifies for deductible contributions as provided in section 170(b)(1)(A)(ii). The School did not have net unrelated business income for the year ended June 30, 2012 and for the period from February 17, 2010 (inception) to June 30, 2011.

The School’s accounting policy provides that a tax expense or benefit from an uncertain tax position may be recognized when it is more likely than not that the position will be sustained upon examination, including resolutions of any related appeals or litigation processes, based on the technical merits. The School has no uncertain tax position resulting in an accrual of tax expense or benefit.

IRS forms 990 filed by the School are subject to examination by the Internal Revenue Service up to three years from the extended due date of each return. All Forms 990 filed by the School are subject to examination.

BRONX SUCCESS ACADEMY CHARTER SCHOOL 1
(A Not-For-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

NOTE 1 - PRINCIPAL BUSINESS ACTIVITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation

The financial statement presentation follows the requirements of the Financial Accounting Standards Board (“FASB”) in its Accounting Standards Codification (“ASC”) No. 958-205 which provides guidance for the classification of net assets. The amounts for each of the three classes of net assets are based on the existence or absence of donor-imposed restrictions described as follows:

Unrestricted

Net assets of the School whose use has not been restricted by an outside donor or by law. They are available for any use in carrying out the operations of the School.

Temporarily Restricted

Net assets of the School whose use has been limited by donor-imposed stipulations that either expire with the passage of time or can be fulfilled and removed by actions of the School. When such stipulations end or are fulfilled, such 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.

Permanently Restricted

Net assets of the School whose use has been permanently limited by donor-imposed restrictions. Such assets include contributions required to be invested in perpetuity, the income from which is available to support charitable purposes designated by the donors.

As of June 30, 2012 and 2011, the School had no temporarily or permanently restricted net assets.

Revenue and Support

Contributions are recognized when the donor makes a promise to give to the School that is, in substance, unconditional. Grants and other contributions of cash are reported as temporarily restricted support if they are received with donor stipulations. Restricted contributions and grants that are made to support the School’s current year activities are recorded as unrestricted revenue. Contributions of assets other than cash are recorded at their estimated fair value.

Revenue from the 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 other state and local funds are recorded when expenditures are incurred and billable to the government agencies.

BRONX SUCCESS ACADEMY CHARTER SCHOOL 1
(A Not-For-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

NOTE 1 - PRINCIPAL BUSINESS ACTIVITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents

For the purpose of the statements of cash flows, the School considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

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 and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Concentration of Credit Risk

Financial instruments which potentially subject the School to concentrations of credit risk are cash and cash equivalents. The School places its cash and cash equivalents on deposit in what it believes to be highly credited financial institutions. Cash balances may exceed the FDIC insured levels of \$250,000 per institution at various times during the year. The School believes that there is little risk in any losses and has not experienced any losses in such accounts.

Restricted Cash

Under the provisions of its charter, the School established an escrow account to pay for legal and audit expenses that would be associated with a dissolution should it occur.

Property and Equipment

Purchased property and equipment are recorded at cost. Property and equipment acquired with certain government funding are recorded as expenses pursuant to the terms of the contract, in which ownership of such property and equipment is retained by the funding source. Maintenance and repairs are expensed as incurred. No depreciation is recorded on construction-in-progress until property and equipment is placed into service. Depreciation and amortization is provided on the straight line method over the estimated useful lives as follows:

Equipment	3 years
Furniture and fixtures	3 years
Website development	3 years
Software	3 years
Leasehold improvements	5 years

Refundable Advances

The School records certain government grants and contracts as refundable advances until related services are performed, at which time it is recognized as revenue.

BRONX SUCCESS ACADEMY CHARTER SCHOOL 1
(A Not-For-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

NOTE 1 - PRINCIPAL BUSINESS ACTIVITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Comparative Financial Information

The accompanying statements of activities and schedule of functional expenses are presented with summarized comparative information. Such prior year information is not presented by net asset class in the statements of activities or by functional category in the schedule of functional expenses. Accordingly, such information should be read in conjunction with the School's 2011 financial statements from which the summarized information was derived.

NOTE 2 - GRANTS AND CONTRACTS RECEIVABLE

Grants and contracts receivable consist of federal and city entitlements and grants. The School expects to collect these receivables within one year.

NOTE 3 - FAIR VALUE MEASUREMENTS

FASB ASC 820-10, *Fair Value Measurements*, establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure 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 as follows:

- Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the plan has the ability to access.
- Level 2 – Inputs other than quoted prices included in level 1 that are observable for the asset or liability, either directly or indirectly including inputs in markets that are not considered to be active.
- Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

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.

BRONX SUCCESS ACADEMY CHARTER SCHOOL 1
(A Not-For-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

NOTE 3 - FAIR VALUE MEASUREMENTS (Continued)

The primary uses of fair value measures in the School's financial statements are:

- initial measurement of noncash gifts, including gifts of investment assets and unconditional promises to give.
- recurring measurement of investments.

The School had no investments at June 30, 2012 and 2011.

NOTE 4 - PROPERTY AND EQUIPMENT

Property and equipment consist of the following at June 30,:

	2012	2011
Equipment	\$ 184,553	\$ 168,956
Furniture and fixtures	150,618	102,323
Website development	2,183	2,183
Software	1,137	-
Leasehold improvements	205,546	99,342
	544,037	372,804
Less: Accumulated depreciation and amortization	292,468	48,744
	\$ 251,569	\$ 324,060

Depreciation and amortization expense was \$174,080 and \$48,744 for the year ended June 30, 2012 and for the period from February 17, 2010 (inception) to June 30, 2011, respectively.

BRONX SUCCESS ACADEMY CHARTER SCHOOL 1
(A Not-For-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

NOTE 5 - RELATED PARTY TRANSACTIONS

The School is an affiliate of Success Academy Charter Schools (the “Network”), a not-for-profit charter management organization dedicated to helping start and manage charter schools, provide management and other administrative support services to the schools.

Pursuant to the terms of the Academic and Business Service Agreement by and between the Network and the School, dated June 16, 2010, the Network shall provide educational management and operational services to the School. As compensation to the Network for these services rendered, the School shall pay to the Network an amount each year equal to the total full-time equivalent enrollment of students in the School multiplied by “the per pupil fee”. The per pupil fee shall be increased or decreased each year by the percentage increase or decrease in the Final Adjusted Expense Per Pupil for charter schools in the New York City school district commencing with and including the 2010-2011 school year. The per pupil fee was \$1,352 for the year ended June 30, 2012 and for the period from February 17, 2010 (inception) to June 30, 2011. For operational efficiency and purchasing power, the School also shares expenses with eight other charter schools related by common management.

For the year ended June 30, 2012 and for the period from February 17, 2010 (inception) to June 30, 2011, the School incurred \$331,734 and \$253,867 in management fees, respectively, and there were no material transactions between the School and the related charter schools. The balance due to the Network from the School at June 30, 2012 and 2011 amounted to \$99,246 and \$81,066, respectively. These balances represent expenses paid by the Network on behalf of the School. The School fully repaid balance due at June 30, 2012 prior to the issuance of this report.

During the year ended June 30, 2011, the School signed a loan agreement with the Network in the amount of \$550,000 with annual interest of 3.25% on any unpaid balance. According to the loan agreement, the School received \$250,000 from the Network through June 30, 2011. The loan will be repaid in three annual installments starting January, 2016 through January, 2018. The loan may be prepaid by the School, at any time, in whole or in part, without penalty. The proceeds were used to finance the School’s operations. The outstanding principal balance of the loan at June 30, 2012 and 2011 was \$250,000. The School paid \$8,125 and \$4,063 in interest expense on this loan for the year ended June 30, 2012 and for the period from February 17, 2010 (inception) to June 30, 2011, respectively.

NOTE 6 - REVENUE CONCENTRATION

The School receives a substantial portion of its support and revenue from the New York City Department of Education. If the charter school laws were modified, reducing or eliminating these revenues, the School’s finances could be materially adversely affected.

BRONX SUCCESS ACADEMY CHARTER SCHOOL 1
(A Not-For-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

NOTE 7 - CONTINGENCY

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

NOTE 8 - FUNCTIONAL ALLOCATION OF EXPENSE

Directly identifiable expenses are charged to programs and supporting services. Expenses related to more than one function are charged to programs and supporting services on the basis of periodic time and expense studies. Management and general expense includes those expenses that are not directly identifiable with any other specific function, but provide for the overall support and direction of the School.

NOTE 9 - DONATED SERVICES

Donated services are recognized as contributions in accordance with FASB ASC 605, "Accounts for Contributions Received and Contributions Made," if the services (a) create or enhance non-financial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the School.

The School received legal services at no charge. The value of these services meets the criteria for recognition in the financial statements and was recorded at fair value of \$-0- and \$74,714 for the year ended June 30, 2012 and for the period from February 17, 2010 (inception) to June 30, 2011, respectively.

NOTE 10 - RETIREMENT PLAN

The School maintains a pension plan qualified under Internal Revenue Code 403(b), for the benefit of its eligible employees. Under the plan, the School will match employee contributions up to 3% of annual compensation. Employer match for the year ended June 30, 2012 and for the period from February 17, 2010 (inception) to June 30, 2011 amounted to \$36,977 and \$24,345, respectively.

NOTE 11 - SUBSEQUENT EVENTS

In preparing these financial statements, the School has evaluated events and transactions for potential recognition or disclosure through October 23, 2012, the date the financial statements were available to be issued.

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INDEPENDENT AUDITORS' REPORT
ON SUPPLEMENTARY INFORMATION

TO THE BOARD OF TRUSTEES
BRONX SUCCESS ACADEMY CHARTER SCHOOL 1

We have audited the financial statements of Bronx Success Academy Charter School 1 as of and for the year ended June 30, 2012, and have issued our report thereon dated October 23, 2012, which contained an unqualified opinion on those financial statements. Our audit was performed for the purpose of forming an opinion on the financial statements as a whole. The schedule of functional expenses is presented for the purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.


FRUCHTER ROSEN & COMPANY, P.C.
Certified Public Accountants

New York, New York
October 23, 2012

BRONX SUCCESS ACADEMY CHARTER SCHOOL 1
(A Not-For-Profit Corporation)
SCHEDULE OF FUNCTIONAL EXPENSES

	For the year ended June 30, 2012				Total	For the period from February 17, 2010 (inception) to June 30, 2011
	Regular Education	Special Education	Total Program Service	Management and General		
Salaries	\$ 1,227,672	\$ 265,443	\$ 1,493,115	\$ 165,903	\$ 1,659,018	\$ 1,287,861
Payroll taxes and employee benefits	252,376	54,568	306,944	34,105	341,049	301,484
Professional development	66,226	13,564	79,790	-	79,790	117,753
Legal	-	-	-	-	-	74,714
Audit and accounting	-	-	-	11,900	11,900	20,000
Professional fees - other	4,537	981	5,518	613	6,131	8,938
Travel and entertainment	14,196	3,069	17,265	1,918	19,183	12,263
Student food service	44,236	9,060	53,296	-	53,296	59,210
Field trips	26,394	5,406	31,800	-	31,800	20,380
Instructional supplies and textbooks	139,022	28,475	167,497	-	167,497	358,775
Management fee	-	-	-	331,734	331,734	253,867
Interest expense	6,012	1,300	7,312	813	8,125	4,063
Teacher recruitment	40,970	8,391	49,361	-	49,361	51,503
Student recruitment	58,917	12,067	70,984	-	70,984	167,630
Marketing	17,139	3,510	20,649	-	20,649	3,683
Consulting	1,014	219	1,233	138	1,371	4,164
Uniforms	818	167	985	-	985	4,933
Office supplies	21,812	4,716	26,528	2,948	29,476	50,008
Computer supplies	3,466	749	4,215	469	4,684	2,862
School culture	11,355	2,326	13,681	-	13,681	12,999
Special events	11,992	2,593	14,585	1,620	16,205	17,112
Equipment rental	3,762	814	4,576	508	5,084	2,828
Student assessments	3,323	681	4,004	-	4,004	11,524
Telephone and internet services	35,562	7,689	43,251	4,805	48,056	25,910
Postage and delivery	2,753	595	3,348	372	3,720	12,492
Insurance	23,187	5,014	28,201	3,133	31,334	23,112
Facilities expense	19,669	4,253	23,922	2,658	26,580	71,158
Information technology	42,905	9,277	52,182	5,798	57,980	27,965
Loss on abandonment of property and equipment	51,537	11,143	62,680	6,964	69,644	-
Depreciation and amortization	128,819	27,853	156,672	17,408	174,080	48,744
Miscellaneous	1,822	394	2,216	246	2,462	1,258
Total	<u>\$ 2,261,493</u>	<u>\$ 484,317</u>	<u>\$ 2,745,810</u>	<u>\$ 594,053</u>	<u>\$ 3,339,863</u>	<u>\$ 3,059,193</u>

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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 SUCCESS ACADEMY CHARTER SCHOOL 1

We have audited the financial statements of Bronx Success Academy Charter School 1 (the "School") as of and for the year ended June 30, 2012, and have issued our report thereon dated October 23, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

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

TO THE BOARD OF TRUSTEES
BRONX SUCCESS ACADEMY CHARTER SCHOOL 1

Compliance and Other Matters

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

This report is intended solely for the information and use of management, Board of Trustees, federal, state and local awarding agencies, The Charter Schools Institute of the State University of New York, The State Education Department of the State University of New York, and others within the School and is not intended to be and should not be used by anyone other than these specified parties.


FRUCHTER ROSEN & COMPANY, P.C.
Certified Public Accountants

New York, New York
October 23, 2012