

**BRONX CHARTER SCHOOL FOR EXCELLENCE AND
FRIENDS OF BRONX CHARTER SCHOOL FOR
EXCELLENCE, 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, 2014

(With Comparative Totals for 2013)



MENGEL METZGER BARR & CO. LLP

Certified Public Accountants

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MENGEL METZGER BARR & CO. LLP

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Bronx Charter School for Excellence
Friends of Bronx Charter School for Excellence, Inc.

Report on the Combined Financial Statements

We have audited the accompanying combined financial statements of Bronx Charter School for Excellence and Friends of Bronx Charter School for Excellence, Inc. which comprise the combined statement of financial position as of June 30, 2014, 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 Friends of Bronx Charter School for Excellence, Inc. as of June 30, 2014, 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

The combined financial statements of Bronx Charter School for Excellence and Friends of Bronx Charter School for Excellence, Inc. for the year ended June 30, 2013 were audited by another auditor who expressed an unmodified opinion on those combined statements in their report dated on October 30, 2013. In our opinion the summarized comparative information presented herein as of and for the year ended June 30, 2013 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 23, 2014 on our consideration of Bronx Charter School for Excellence and Friends of Bronx Charter School for Excellence, 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 Friends of Bronx Charter School for Excellence, Inc.'s internal control over financial reporting and compliance.

Mengel, Metzger, Barw & Co. LLP

Rochester, New York
October 23, 2014

BRONX CHARTER SCHOOL FOR EXCELLENCE AND
FRIENDS OF BRONX CHARTER SCHOOL FOR EXCELLENCE, INC.

COMBINED STATEMENT OF FINANCIAL POSITION

JUNE 30, 2014
(With Comparative Totals for 2013)

<u>ASSETS</u>	June 30.	
	2014	2013
<u>CURRENT ASSETS</u>		
Cash and cash equivalents	\$ 1,274,427	\$ 2,673,392
Grants and other receivables	583,918	426,080
Prepaid expenses	106,018	55,194
Security deposits	9,185	3,690
TOTAL CURRENT ASSETS	1,973,548	3,158,356
<u>PROPERTY AND EQUIPMENT, net</u>	17,459,719	9,114,832
<u>OTHER ASSETS</u>		
Investments - restricted	11,825,368	16,829,074
Bond issuance costs and loan closing costs, net of accumulated amortization of \$133,726 and \$22,428, respectively	1,487,312	1,582,018
	13,312,680	18,411,092
TOTAL ASSETS	\$ 32,745,947	\$ 30,684,280
<u>LIABILITIES AND NET ASSETS</u>		
<u>CURRENT LIABILITIES</u>		
Accounts payable	\$ 248,304	\$ 354,108
Accrued expenses	934,700	231,672
Accrued payroll and benefits	744,022	800,686
Deferred revenue	279,672	-
Deferred lease incentive	19,067	-
TOTAL CURRENT LIABILITIES	2,225,765	1,386,466
<u>OTHER LIABILITIES</u>		
Bonds payable, net	26,017,428	26,097,459
Reserve for payment of debt service	1,540,000	1,540,000
TOTAL OTHER LIABILITIES	27,557,428	27,637,459
<u>NET ASSETS</u>		
Unrestricted	2,860,579	1,410,355
Temporarily restricted	102,175	250,000
TOTAL NET ASSETS	2,962,754	1,660,355
TOTAL LIABILITIES AND NET ASSETS	\$ 32,745,947	\$ 30,684,280

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

BRONX CHARTER SCHOOL FOR EXCELLENCE AND
FRIENDS OF BRONX CHARTER SCHOOL FOR EXCELLENCE, INC.

COMBINED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

YEAR ENDED JUNE 30, 2014
(With Comparative Totals for 2013)

	Year ended June 30,			2013
	2014		Total	
	Unrestricted	Temporarily restricted		
Operating revenue and support:				Total
State and local per pupil operating revenue	\$ 8,199,935	\$ -	\$ 8,199,935	\$ 7,698,079
Grants	647,784	-	647,784	364,814
Contributions	275,140	102,175	377,315	550,317
Contributed services	110,541	-	110,541	52,166
Fundraising	2,355	-	2,355	-
Investment income (loss)	43,044	-	43,044	(192)
Other income	37,718	-	37,718	12,136
Net assets released from restriction	250,000	(250,000)	-	-
TOTAL OPERATING REVENUE AND SUPPORT	9,566,517	(147,825)	9,418,692	8,677,320
Expenses:				
Program:				
Regular education	4,993,371	-	4,993,371	5,084,532
Special education	1,173,829	-	1,173,829	1,071,832
Management and general	1,889,676	-	1,889,676	1,917,218
Fundraising and special events	59,417	-	59,417	82,146
TOTAL EXPENSES	8,116,293	-	8,116,293	8,155,728
CHANGE IN NET ASSETS	1,450,224	(147,825)	1,302,399	521,592
Net assets at beginning of year	1,410,355	250,000	1,660,355	1,138,763
NET ASSETS AT END OF YEAR	<u>\$ 2,860,579</u>	<u>\$ 102,175</u>	<u>\$ 2,962,754</u>	<u>\$ 1,660,355</u>

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

BRONX CHARTER SCHOOL FOR EXCELLENCE AND
FRIENDS OF BRONX CHARTER SCHOOL FOR EXCELLENCE, INC.

COMBINED STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2014
(With Comparative Totals for 2013)

	Year ended June 30, 2014										Year ended June 30, 2013	
	No. of Positions	Program Services			Management and general		Supporting Services			Sub-total		Total
		Regular Education	Special Education	Sub-total	Fundraising and special events							
Personnel Services Costs:	10	\$ -	\$ -	\$ -	\$ 387,734	\$ -	\$ -	\$ -	\$ -	\$ 387,734	\$ 387,734	\$ 510,592
Administrative staff personnel	54	2,262,683	616,629	2,879,312	-	-	-	-	-	-	2,879,312	2,688,624
Instructional personnel	11	834,690	191,970	1,026,660	120,642	6,472	6,472	-	-	127,114	1,153,774	800,638
Non-instructional personnel	75	3,097,373	808,599	3,905,972	508,376	6,472	6,472	-	-	514,848	4,420,820	3,999,854
Total salaries and wages												
Payroll taxes and employee benefits		869,799	200,044	1,069,843	125,717	6,744	6,744	-	-	132,461	1,202,304	1,163,620
Professional development		118,314	15,997	134,311	6,733	1,143	1,143	-	-	7,876	142,187	119,591
Legal fees		-	-	-	41,908	-	-	-	-	41,908	41,908	3,065
Audit fees		-	-	-	87,235	-	-	-	-	87,235	87,235	41,753
Financial management services		-	-	-	95,895	-	-	-	-	95,895	95,895	-
Professional services		109,333	19,893	129,226	231,538	488	488	-	-	232,026	361,252	241,844
Student and staff recruitment		130,312	11,748	142,060	56,144	-	-	-	-	56,144	56,144	41,596
Curriculum and classroom supplies		20,926	4,814	25,740	7,383	7,779	396	396	-	7,779	149,839	224,770
Office expenses		36,927	-	36,927	3,025	162	162	-	-	3,187	28,927	18,776
Food services		120,063	14,469	134,532	-	-	-	24,000	-	24,000	158,532	235,533
Student services		49,709	11,433	61,142	18,239	385	385	-	-	18,624	79,766	55,150
Insurance		-	-	-	7,786	-	-	-	-	7,786	7,786	6,063
Information technology		243,217	55,937	299,154	35,153	1,886	1,886	-	-	37,039	336,193	1,036,529
Occupancy and utilities		41,935	9,645	51,580	6,061	325	325	-	-	6,386	57,966	41,669
Leased equipment and repairs		5,090	1,171	6,261	9,517	39	39	-	-	9,556	15,817	15,643
Non-capitalized equipment and furnishings		82,993	19,087	102,080	430,233	644	644	-	-	430,233	114,719	88,187
Repairs and maintenance		-	-	-	144,215	-	-	-	-	144,215	144,215	616,293
Depreciation and amortization		-	-	-	62,523	-	-	-	-	62,523	62,523	29,583
Interest expense		67,380	992	68,372	-	-	-	-	-	-	-	158,545
Other		4,993,371	1,173,829	6,167,200	1,889,676	59,417	59,417	-	-	1,949,093	8,116,293	8,155,728

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

BRONX CHARTER SCHOOL FOR EXCELLENCE AND
FRIENDS OF BRONX CHARTER SCHOOL FOR EXCELLENCE, INC.

COMBINED STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2014
(With Comparative Totals for 2013)

	Year ended June 30.	
	2014	2013
<u>CASH FLOWS - OPERATING ACTIVITIES</u>		
Change in net assets	\$ 1,302,399	\$ 521,592
Adjustments to reconcile change in net assets to net cash provided from operating activities:		
Depreciation and amortization	430,233	616,293
Net realized and unrealized (gains) losses	(6,306)	2,154
Bond premium amortization	(80,031)	(14,285)
Changes in certain assets and liabilities affecting operations:		
Grants and other receivables	(157,838)	(121,397)
Prepaid expenses	(50,824)	158,257
Security deposit	(5,495)	-
Accounts payable	(105,804)	455,962
Accrued expenses	130,154	-
Accrued payroll and benefits	(56,664)	-
Deferred revenue	279,672	-
Deferred lease incentive	19,067	-
Deferred rent	-	320,282
NET CASH PROVIDED FROM OPERATING ACTIVITIES	1,698,563	1,938,858
<u>CASH FLOWS - INVESTING ACTIVITIES</u>		
Purchases of property and equipment	(8,090,948)	(9,978,320)
Proceeds from sale of investments	5,010,012	1,864,114
Purchase of investments	-	(18,695,342)
NET CASH USED FOR INVESTING ACTIVITIES	(3,080,936)	(26,809,548)
<u>CASH FLOWS - FINANCING ACTIVITIES</u>		
Proceeds from issuance of long-term debt	-	26,111,744
Payments for bond issuance costs	(16,592)	(1,604,446)
Proceeds from Charter School Financing Partnership	-	1,540,000
NET CASH (USED FOR) PROVIDED FROM FINANCING ACTIVITIES	(16,592)	26,047,298
NET (DECREASE) INCREASE IN CASH	(1,398,965)	1,176,608
Cash and cash equivalents at beginning of year	2,673,392	1,496,784
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 1,274,427	\$ 2,673,392
<u>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</u>		
Cash paid during the year for interest	\$ 63,652	\$ -
Incurrence of accounts payable for construction in progress	\$ -	\$ 103,555
Incurrence of accrued expenses for construction in progress	\$ 572,874	\$ -

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

BRONX CHARTER SCHOOL FOR EXCELLENCE AND
FRIENDS OF BRONX CHARTER SCHOOL FOR EXCELLENCE, INC.

NOTES TO COMBINED FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2014
(With Comparative Totals for 2013)

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 (the "Charter School") and Friends of Bronx Charter School for Excellence ("Friends"), (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 the Charter School a provisional charter valid for a term of five years and renewable upon expiration. In March 2009 and January 2014, the Charter School was awarded a full-term, five-year charter renewal. The current Charter renewal is through January 2019. The Charter 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 Charter School offers a challenging and rigorous academic curriculum which, at the earliest of grades, has an eye towards college preparation for grades first through eighth.

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 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 Charter School for a new building facility. From fiscal 2007 through fiscal 2014, Friends was making new efforts to raise additional funds to support the Charter School.

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.

BRONX CHARTER SCHOOL FOR EXCELLENCE AND
FRIENDS OF BRONX CHARTER SCHOOL FOR EXCELLENCE, INC.

NOTES TO COMBINED FINANCIAL STATEMENTS, Cont'd

YEAR ENDED JUNE 30, 2014
(With Comparative Totals for 2013)

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

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, 2014 or 2013.

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, 2014 are restricted for a library for the new facilities and the gala.

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.

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

Contributions

Contributions received 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.

BRONX CHARTER SCHOOL FOR EXCELLENCE AND
FRIENDS OF BRONX CHARTER SCHOOL FOR EXCELLENCE, INC.

NOTES TO COMBINED FINANCIAL STATEMENTS, Cont'd

YEAR ENDED JUNE 30, 2014
(With Comparative Totals for 2013)

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

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, 2014 or 2013.

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 the Charter School is not yet occupying. 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 issued (Note F), 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, 2014, the Charter School had additional commitments of approximately \$12,275,000 for construction in progress related to the completion of the building renovation project, all of which are expected to be incurred through 2015.

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.

BRONX CHARTER SCHOOL FOR EXCELLENCE AND
FRIENDS OF BRONX CHARTER SCHOOL FOR EXCELLENCE, INC.

NOTES TO COMBINED FINANCIAL STATEMENTS, Cont'd

YEAR ENDED JUNE 30, 2014
(With Comparative Totals for 2013)

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

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 (loss) 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 Friends 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 Friends file Form 990 tax returns in the U.S. federal jurisdiction and Friends files in New York State. The tax returns for the years ended June 30, 2011 through June 30, 2014 are still subject to potential audit by the IRS. The Organization is no longer subject to U.S. federal or state income tax examinations by tax authorities for years ended prior to June 30, 2011. Management of the Organization believes it has no material uncertain tax positions and, accordingly it will not recognize any liability for unrecognized tax benefits.

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 \$110,541 and \$52,166 and are included in bond issuance costs and construction in progress in the accompanying statement of financial position at June 30, 2014 and 2013, respectively.

BRONX CHARTER SCHOOL FOR EXCELLENCE AND
FRIENDS OF BRONX CHARTER SCHOOL FOR EXCELLENCE, INC.

NOTES TO COMBINED FINANCIAL STATEMENTS, Cont'd

YEAR ENDED JUNE 30, 2014
(With Comparative Totals for 2013)

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 \$56,144 and \$41,596 for the years ended June 30, 2014 and 2013, 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, 2013

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 period ended June 30, 2013, from which the summarized information was derived.

Reclassifications

Certain 2013 balances have been reclassified to conform to the 2014 presentation.

Subsequent events

The Charter School has conducted an evaluation of potential subsequent events occurring after the statement of financial position date through October 23, 2014, which is the date the combined financial statements are available to be issued. No subsequent events requiring disclosure were noted.

BRONX CHARTER SCHOOL FOR EXCELLENCE AND
FRIENDS OF BRONX CHARTER SCHOOL FOR EXCELLENCE, INC.

NOTES TO COMBINED FINANCIAL STATEMENTS, Cont'd

YEAR ENDED JUNE 30, 2014
(With Comparative Totals for 2013)

NOTE B: 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 \$136,000 and \$891,000 for the years ended June 30, 2014 and 2013.

As of June 2014, the Charter School extended the lease for another year ending July 31, 2015. Monthly rental payments through July 2014 are \$14,037 and then \$16,000 through July 2015.

The future minimum payments on this agreement are as follows:

<u>Year ending June 30,</u>	<u>Amount</u>
2015	\$ 190,000
2016	16,000
	<u>\$ 206,000</u>

NOTE C: PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	<u>June 30,</u>	
	<u>2014</u>	<u>2013</u>
Land	\$ 914,772	\$ 914,772
Buildings	5,230,217	5,230,217
Furniture and fixtures	180,957	180,957
Computers and software	274,122	274,122
Construction in progress	11,387,171	2,743,863
Leasehold improvements	<u>893,875</u>	<u>873,361</u>
	18,881,114	10,217,292
Less accumulated depreciation and amortization	<u>1,421,395</u>	<u>1,102,460</u>
	<u>\$ 17,459,719</u>	<u>\$ 9,114,832</u>

BRONX CHARTER SCHOOL FOR EXCELLENCE AND
FRIENDS OF BRONX CHARTER SCHOOL FOR EXCELLENCE, INC.

NOTES TO COMBINED FINANCIAL STATEMENTS, Cont'd

YEAR ENDED JUNE 30, 2014
(With Comparative Totals for 2013)

NOTE C: PROPERTY AND EQUIPMENT, Cont'd

Total depreciation expense was \$318,935 and \$271,633 for the years ended June 30, 2014 and 2013, respectively.

During 2012, approximately \$7,400,000 of proceeds from the bonds was used to purchase the property the Charter School had been renting and an adjacent lot. As of the purchase date, the outstanding deferred rent liability of approximately \$3,700,000 has been offset against the building's purchase price for the year ended June 30, 2013.

NOTE D: OPERATING LEASE

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 \$1,700 as of the year ended June 30, 2014. The future minimum payments on this agreement are as follows:

<u>Year ending June 30,</u>	<u>Amount</u>
2015	\$ 31,000
2016	31,000
2017	31,000
2018	31,000
2019	18,000
	<u>\$ 142,000</u>

BRONX CHARTER SCHOOL FOR EXCELLENCE AND
FRIENDS OF BRONX CHARTER SCHOOL FOR EXCELLENCE, INC.

NOTES TO COMBINED FINANCIAL STATEMENTS, Cont'd

YEAR ENDED JUNE 30, 2014
(With Comparative Totals for 2013)

NOTE E: 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, 2014 and 2013:

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
FRIENDS OF BRONX CHARTER SCHOOL FOR EXCELLENCE, INC.

NOTES TO COMBINED FINANCIAL STATEMENTS, Cont'd

YEAR ENDED JUNE 30, 2014
(With Comparative Totals for 2013)

NOTE E: 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, 2014 and 2013:

	Assets at Fair Value			
	Level 1	Level 2	Level 3	Total
<u>June 30, 2014:</u>				
Money market	\$ 4,325,959	\$ -	\$ -	\$ 4,325,959
Commercial paper	-	4,697,849	-	4,697,849
U.S. government and agency securities	-	2,801,560	-	2,801,560
Total assets at fair value	\$ 4,325,959	\$ 7,499,409	\$ -	\$ 11,825,368

	Assets at Fair Value			
	Level 1	Level 2	Level 3	Total
<u>June 30, 2013:</u>				
Money market	\$ 508,335	\$ -	\$ -	\$ 508,335
Commercial paper	-	8,875,787	-	8,875,787
U.S. government and agency securities	-	7,444,952	-	7,444,952
Total assets at fair value	\$ 508,335	\$ 16,320,739	\$ -	\$ 16,829,074

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
FRIENDS OF BRONX CHARTER SCHOOL FOR EXCELLENCE, INC.

NOTES TO COMBINED FINANCIAL STATEMENTS, Cont'd

YEAR ENDED JUNE 30, 2014
(With Comparative Totals for 2013)

NOTE F: 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, 2014 and 2013:

Year	Series A		Series B		Total
	Principal	Interest Rate	Principal	Interest Rate	
2015	\$ -		\$ -		\$ -
2016	-		155,000	5%	155,000
2017	-		445,000	5%	445,000
2018	380,000	3%	90,000	5%	470,000
2019	485,000	4%	-		485,000
Thereafter	22,445,000	4-5.5%	-		22,445,000
	<u>\$ 23,310,000</u>		<u>\$ 690,000</u>		<u>\$ 24,000,000</u>

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

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.

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.

BRONX CHARTER SCHOOL FOR EXCELLENCE AND
FRIENDS OF BRONX CHARTER SCHOOL FOR EXCELLENCE, INC.

NOTES TO COMBINED FINANCIAL STATEMENTS, Cont'd

YEAR ENDED JUNE 30, 2014
(With Comparative Totals for 2013)

NOTE F: BONDS PAYABLE, Cont'd

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, 2014 and 2013, the unexpended balances were \$7,499,409 and \$14,712,881, 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, 2014 and 2013.

Total issuance costs of approximately \$1,621,000 are being amortized over the life of the bonds. Amortization expense of \$111,298 and \$22,428 were recorded for the years ended June 30, 2014 and 2013, respectively. The Charter School incurred net interest expense of approximately \$1,152,000 of which \$1,008,000 was capitalized and is included in construction-in-progress and approximately \$144,000 is recognized in the combined statement of activities and changes in net assets for the year ended June 30, 2014. The Charter School incurred net interest expense of approximately \$213,000 of which \$186,000 was capitalized and is included in construction-in-progress and approximately \$27,000 is recognized in the combined statement of activities and changes in net assets for the year ended June 30, 2013.

NOTE G: 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, 2014 and 2013 the Charter School made contributions of approximately \$108,000 and \$92,000, respectively.

NOTE H: 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.

BRONX CHARTER SCHOOL FOR EXCELLENCE AND
FRIENDS OF BRONX CHARTER SCHOOL FOR EXCELLENCE, INC.

NOTES TO COMBINED FINANCIAL STATEMENTS, Cont'd

YEAR ENDED JUNE 30, 2014
(With Comparative Totals for 2013)

NOTE I: CONCENTRATIONS

At June 30, 2014, approximately 67% of grants and other receivables are due from New York State relating to certain grants.

At June 30, 2013, approximately 55% of grants and other receivables are due from New York State relating to certain grants. At June 30, 2013, approximately 39% of grants and other receivables are due from New York City relating to certain grants.

For the years ended June 30, 2014 and 2013, 87% and 89%, 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
FRIENDS OF BRONX CHARTER SCHOOL FOR EXCELLENCE, INC.**

OTHER COMBINING FINANCIAL INFORMATION



MENGEL METZGER BARR & CO. LLP

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT ON COMBINING FINANCIAL INFORMATION

Board of Trustees
Bronx Charter School for Excellence
Friends of Bronx Charter School for Excellence, Inc.

We have audited the combined financial statements of Bronx Charter School for Excellence and Friends of Bronx Charter School for Excellence, Inc. as of and for the year ended June 30, 2014, and have issued our report thereon dated October 23, 2014, 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 2014 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, 2014, as a whole.

Mengel, Metzger, Barr & Co. LLP

Rochester, New York
October 23, 2014

**BRONX CHARTER SCHOOL FOR EXCELLENCE AND
FRIENDS OF BRONX CHARTER SCHOOL FOR EXCELLENCE, INC.**

COMBINING STATEMENT OF FINANCIAL POSITION

**JUNE 30, 2014
(With Comparative Totals for 2013)**

ASSETS	June 30,			
	2014		2013	
	Bronx Charter School for Excellence	Friends of Bronx Charter School for Excellence, Inc.	Eliminations	Total
CURRENT ASSETS				
Cash and cash equivalents	\$ 629,946	\$ 644,481	-	\$ 1,274,427
Grants and other receivables	627,187	141,175	(184,444)	583,918
Prepaid expenses	56,818	49,200	-	106,018
Security deposits	9,185	-	-	9,185
TOTAL CURRENT ASSETS	1,323,136	834,856	(184,444)	1,973,548
PROPERTY AND EQUIPMENT, net	17,459,719	-	-	17,459,719
OTHER ASSETS				
Investments - restricted	11,825,368	-	-	11,825,368
Bond issuance costs and loan closing costs, net of accumulated amortization of \$133,726 and \$22,428, respectively	1,487,312	-	-	1,487,312
	13,312,680	-	-	13,312,680
TOTAL ASSETS	\$ 32,095,535	\$ 834,856	\$ (184,444)	\$ 32,745,947
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES				
Accounts payable	\$ 242,792	\$ 5,512	-	\$ 248,304
Accrued expenses	934,700	184,444	(184,444)	934,700
Accrued payroll and benefits	744,022	-	-	744,022
Deferred revenue	279,672	-	-	279,672
Deferred lease incentive	19,067	-	-	19,067
TOTAL CURRENT LIABILITIES	2,220,253	189,956	(184,444)	2,225,765
OTHER LIABILITIES				
Bonds payable, net	26,017,428	-	-	26,017,428
Reserve for payment of debt service	1,540,000	-	-	1,540,000
TOTAL OTHER LIABILITIES	27,557,428	-	-	27,557,428
NET ASSETS				
Unrestricted	2,261,834	598,725	-	2,860,559
Temporarily restricted	56,000	46,175	-	102,175
TOTAL NET ASSETS	2,317,834	644,900	-	2,962,734
TOTAL LIABILITIES AND NET ASSETS	\$ 32,095,535	\$ 834,856	\$ (184,444)	\$ 32,745,947
				\$ 30,684,280

BRONX CHARTER SCHOOL FOR EXCELLENCE AND
FRIENDS OF BRONX CHARTER SCHOOL FOR EXCELLENCE, INC.

COMBINING STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

YEAR ENDED JUNE 30, 2014
(With Comparative Totals for 2013)

	June 30,			
	2014		2013	
	Bronx Charter School for Excellence	Friends of Bronx Charter School for Excellence, Inc.	Eliminations	Total
Operating revenue and support:				
State and local per pupil operating revenue	\$ 8,199,935	\$ -	\$ -	\$ 8,199,935
Grants	647,784	-	-	647,784
Contributions	130,336	246,979	-	377,315
Contributed services	110,541	-	-	110,541
Fundraising	-	2,355	-	2,355
Investment income (loss)	42,624	420	-	43,044
Other income	36,896	822	-	37,718
TOTAL OPERATING REVENUE AND SUPPORT	9,168,116	250,576	-	9,418,692
Expenses:				
Program:				
Regular education	4,971,843	21,528	-	4,993,371
Special education	1,169,224	4,605	-	1,173,829
Management and general	1,817,445	72,231	-	1,889,676
Fundraising and special events	33,929	25,488	-	59,417
TOTAL EXPENSES	7,992,441	123,852	-	8,116,293
CHANGE IN NET ASSETS	1,175,675	126,724	-	1,302,399
Net assets at beginning of year	1,142,179	518,176	-	1,660,355
NET ASSETS AT END OF YEAR	\$ 2,317,854	\$ 644,900	\$ -	\$ 2,962,754
				\$ 1,660,355

BRONX CHARTER SCHOOL FOR EXCELLENCE AND
 FRIENDS OF BRONX CHARTER SCHOOL FOR EXCELLENCE, INC.
 STATEMENT OF FUNCTIONAL EXPENSES - BRONX CHARTER SCHOOL FOR EXCELLENCE

YEAR ENDED JUNE 30, 2014
 (With Comparative Totals for 2013)

	Year ended June 30, 2014						Year ended June 30, 2013
	Program Services			Supporting Services			
	Regular Education	Special Education	Sub-total	Management and general	Fundraising and special events	Sub-total	
Personnel services costs:							
Administrative staff personnel	\$ -	-	-	\$ 332,734	-	\$ 332,734	\$ 506,992
Instructional personnel	2,262,683	616,629	2,879,312	-	-	-	2,688,624
Non-instructional personnel	817,273	187,964	1,005,237	118,125	6,337	124,462	780,638
Total salaries and wages	3,079,956	804,593	3,884,549	450,859	6,337	457,196	3,976,254
Payroll taxes and employee benefits	869,799	200,044	1,069,843	125,717	6,744	132,461	1,156,317
Professional development	116,446	15,468	131,914	4,992	814	5,806	137,720
Legal fees	-	-	-	38,425	-	38,425	3,065
Audit fees	-	-	-	81,723	-	81,723	36,203
Financial management services	-	-	-	95,895	-	95,895	-
Professional services	107,833	19,893	127,726	231,538	488	232,026	241,844
Student and staff recruitment	-	-	-	55,669	-	55,669	41,596
Curriculum and classroom supplies	130,083	11,741	141,824	7,379	396	7,775	224,770
Office expenses	20,922	4,812	25,734	3,024	162	3,186	18,665
Food services	36,927	-	36,927	-	-	-	17,664
Student services	119,553	14,408	133,961	-	-	-	235,235
Insurance	49,709	11,433	61,142	14,768	-	15,153	133,961
Information technology	-	-	-	7,786	-	7,786	76,295
Occupancy and utilities	243,217	55,937	299,154	35,153	1,886	37,039	1,036,529
Leased equipment and repairs	41,935	9,645	51,580	6,061	325	6,386	6,063
Non-capitalized equipment and furnishings	5,090	1,171	6,261	9,517	39	9,556	336,193
Repairs and maintenance	82,993	19,087	102,080	11,995	644	12,639	57,966
Depreciation and amortization	-	-	-	430,233	-	430,233	41,669
Interest expense	-	-	-	144,215	-	144,215	15,643
Other	67,380	992	68,372	62,496	15,709	78,205	88,187
	<u>\$ 4,971,843</u>	<u>\$ 1,169,224</u>	<u>\$ 6,141,067</u>	<u>\$ 1,817,445</u>	<u>\$ 33,929</u>	<u>\$ 1,851,374</u>	<u>\$ 7,992,441</u>
							<u>\$ 7,794,161</u>

BRONX CHARTER SCHOOL FOR EXCELLENCE AND
 FRIENDS OF BRONX CHARTER SCHOOL FOR EXCELLENCE, INC.
 STATEMENT OF FUNCTIONAL EXPENSES - FRIENDS OF BRONX CHARTER SCHOOL FOR
 EXCELLENCE, INC.

YEAR ENDED JUNE 30, 2014
 (WITH COMPARATIVE TOTALS FOR 2013)

	Year ended June 30, 2014						Year ended June 30, 2013
	Program Services			Supporting Services			
	Regular Education	Special Education	Sub-total	Management and general	Fundraising and special events	Sub-total	
Personnel services costs:							
Administrative staff personnel	\$ 17,417	\$ 4,006	\$ 21,423	\$ 55,000	\$ -	\$ 55,000	\$ 3,600
Non-instructional personnel	17,417	4,006	21,423	2,517	135	2,652	20,000
Total salaries and wages				57,517	135	57,652	23,600
Payroll taxes and employee benefits	-	-	-	-	-	-	7,303
Professional development	1,868	529	2,397	1,741	329	2,070	-
Legal fees	-	-	-	3,483	-	3,483	-
Audit fees	-	-	-	5,512	-	5,512	5,550
Professional services	1,500	-	1,500	-	-	-	-
Student and staff recruitment	229	7	236	475	-	475	-
Curriculum and classroom supplies	4	2	6	4	-	4	-
Office expenses	510	61	571	1	-	1	111
Student services	-	-	-	3,471	24,000	24,000	298
Insurance	-	-	-	-	-	3,471	1,181
Depreciation and amortization	-	-	-	-	-	-	322,232
Other	-	-	-	27	1,024	1,051	1,292
	\$ 21,528	\$ 4,605	\$ 26,133	\$ 72,231	\$ 25,488	\$ 97,719	\$ 361,567

**BRONX CHARTER SCHOOL FOR EXCELLENCE AND
FRIENDS OF BRONX CHARTER SCHOOL FOR EXCELLENCE, INC.**

REPORT REQUIRED BY GOVERNMENT AUDITING STANDARDS



MENGEL METZGER BARR & CO. LLP

Certified Public Accountants

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
Friends of Bronx Charter School for Excellence, 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 Friends of Bronx Charter School for Excellence, Inc. which comprise the combined statement of financial position as of June 30, 2014 and the related combined statements of activities and changes to net assets, functional expenses and cash flows for the year then ended, and the related notes to the combined financial statements, and have issued our report thereon dated October 23, 2014.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Bronx Charter School for Excellence and Friends of Bronx Charter School for Excellence, 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 financial statements, but not for the purpose of expressing an opinion on the effectiveness of Bronx Charter School for Excellence and Friends of Bronx Charter School for Excellence Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of Bronx Charter School for Excellence and Friends of Bronx Charter School for Excellence 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. 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 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 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 over financial reporting 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 Friends of Bronx Charter School for Excellence Inc.'s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of combined financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

We noted certain matters that we have reported to management of Bronx Charter School for Excellence and Friends of Bronx Charter School for Excellence, Inc. in a separate letter dated October 23, 2014.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Restricted Use

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

Mengel, Metzger, Barw & Co. LLP

Rochester, New York
October 23, 2014

BRONX CHARTER SCHOOL FOR EXCELLENCE AND
FRIENDS OF BRONX CHARTER SCHOOL FOR
EXCELLENCE, INC.

ADVISORY COMMENT LETTER

JUNE 30, 2014



MENGEL METZGER BARR & CO. LLP

Certified Public Accountants



MENGEL METZGER BARR & CO. LLP

Certified Public Accountants

October 23, 2014

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

In planning and performing our audit of the combined financial statements of Bronx Charter School for Excellence and Friends of Bronx Charter School for Excellence, Inc. as of and for the year ended June 30, 2014, in accordance with auditing standards generally accepted in the United States of America, we considered Bronx Charter School for Excellence and Friends of Bronx Charter School for Excellence, 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 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 Friends of Bronx Charter School for Excellence, 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.

During the course of our audit of the combined financial statements of Bronx Charter School for Excellence and Friends of Bronx Charter School for Excellence, Inc. as of and for the year ended June 30, 2014, we observed the Organization's significant accounting policies and certain business, financial and administrative practices. As a result of our observations, we noted the following, which we do not consider to be significant deficiencies or material weaknesses:

Bank Reconciliations

During our audit, we noted per the FPP, when the Charter School receives its bank statements in the mail they should be opened and reviewed by the Head of School. With this review, the Head of School is to sign and date the bank statement and give it to the Director of Finance and Operations for reconciliation. During our walkthrough of the procedures in the FPP, we noted the Head of School is not signing off on the bank statements to show it has been received and reviewed. We understand the Head of School typically reviews the bank statement on-line prior to receiving the hard copy statement. Once she reviews the statement on-line she forwards an electronic copy of the statement to accounting.

Recommendation

We recommend the Charter School adhere to its FPP and have the Head of School sign off on bank statements after they have been reviewed or document in the email to accounting that she has reviewed the electronic statements prior to forwarding.

Dual Signatures

During our audit, we noted a check over \$10,000 did not have two signatures on it or an approval on the applicable Expense Submission form. Per the FPP, double signatures are required for disbursements over \$10,000 unless the disbursement is for rent or health insurance. The transaction in question was for accounting services with a third party company.

Recommendation

We recommend the Charter School adhere to its FPP for all amounts over \$10,000 unless they meet one of the exceptions.

Minutes

During our audit, we noted minutes of the Finance Committee meetings were not maintained.

Recommendation

We recommended minutes of all Board committees be maintained. The Form 990 inquires if all committee meetings were documented as well as meetings of the governing body. Keeping minutes of all meetings is also an indication of good governance.

* * * * *

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 Friends of Bronx Charter School for Excellence, 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

BRONX CHARTER SCHOOL FOR EXCELLENCE

AGREED UPON PROCEDURES

YEAR ENDED JUNE 30, 2014



MENGEL METZGER BARR & CO. LLP

Certified Public Accountants



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 of payroll expenses, as there were no other expenses in the period tested. Based on our testing, we noted that expenditures fall into an appropriate budget category and that the expenditures were charged to the appropriate period. For all ten selections, we observed that the expenditures were in accordance with the purpose of the grant and that none of the expenditures were pre-opening expenditures.

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 select one FS-25 and 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

There were no FS-25s filed during the year ending in June 2014. The Charter School received the first 20% on grant funding and did not require any advancement on the CSP. 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 could not be conducted, therefore, no issues noted.

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 16, 2014