

**BRONX SUCCESS ACADEMY CHARTER SCHOOL 1**

**(A Not-For-Profit Corporation)**

**FINANCIAL STATEMENTS**

**JUNE 30, 2011**

BRONX SUCCESS ACADEMY CHARTER SCHOOL 1  
(A Not-For-Profit Corporation)  
FINANCIAL STATEMENTS  
JUNE 30, 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, 2011, the related statements of activities, and cash flows for the period from February 17, 2010 (inception) to June 30, 2011. 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.

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, 2011, and the changes in its net assets and its cash flows for the period from February 17, 2010 (inception) to June 30, 2011, 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 September 23, 2011 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.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of the School taken as a whole. The accompanying schedule of expenditures of federal awards for the year ended June 30, 2011 is presented for the purposes of additional analysis as required by the U.S. Office Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as whole.

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

New York, New York  
September 23, 2011

BRONX SUCCESS ACADEMY CHARTER SCHOOL 1  
(A Not-For-Profit Corporation)  
STATEMENT OF FINANCIAL POSITION  
JUNE 30, 2011

ASSETS

Current assets:

Cash and cash equivalents	\$ 1,167,550
Grants and contracts receivable	427,269
Prepaid expenses	<u>794</u>

Total current assets	1,595,613
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Property and equipment, net of accumulated  
depreciation and amortization of \$48,744

324,060

Restricted cash

25,049

TOTAL ASSETS

\$ 1,944,722

LIABILITIES AND UNRESTRICTED NET ASSETS

Current liabilities:

Accounts payable and accrued expenses	\$ 82,373
Accrued payroll and payroll taxes	103,033
Due to related party	<u>81,066</u>

Total current liabilities	266,472
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Loan payable - related party

250,000

Total liabilities

516,472

Unrestricted net assets

1,428,250

TOTAL LIABILITIES AND UNRESTRICTED NET ASSETS

\$ 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)  
STATEMENT OF ACTIVITIES  
FOR THE PERIOD FROM FEBRUARY 17, 2010 (INCEPTION)  
TO JUNE 30, 2011

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenue and support:			
State and local per pupil operating revenue	\$ 2,662,355	\$ -	\$ 2,662,355
Federal grants	754,951	-	754,951
State and city grants	132,460	-	132,460
Contributions and private grants	787,800	75,000	862,800
Donated services	74,714	-	74,714
Interest income	163	-	163
Net assets released from restrictions - satisfaction of purpose restriction	75,000	(75,000)	-
	<u>4,487,443</u>	<u>-</u>	<u>4,487,443</u>
Total revenue and support			
Expenses:			
Program services			
Regular education	2,035,334	-	2,035,334
Special education	518,206	-	518,206
Total program services	<u>2,553,540</u>	<u>-</u>	<u>2,553,540</u>
Supporting service			
Management and general	505,653	-	505,653
	<u>3,059,193</u>	<u>-</u>	<u>3,059,193</u>
Total expenses			
Change in net assets	1,428,250	-	1,428,250
Net assets - beginning of period	<u>-</u>	<u>-</u>	<u>-</u>
Net assets - end of period	<u>\$ 1,428,250</u>	<u>\$ -</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)  
STATEMENT OF CASH FLOWS  
FOR THE PERIOD FROM FEBRUARY 17, 2010 (INCEPTION)  
TO JUNE 30, 2011

<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Change in net assets	\$ 1,428,250
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation and amortization	48,744
Changes in certain assets and liabilities:	
(Increase) in grants and contracts receivable	(427,269)
(Increase) in prepaid expense	(794)
(Increase) in restricted cash	(25,049)
Increase in accounts payable and accrued expenses	82,373
Increase in accrued payroll and payroll taxes	103,033
Increase in due to related party	<u>81,066</u>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u>1,290,354</u>
<b>CASH FLOWS FROM INVESTING ACTIVITY</b>	
Purchase of property and equipment	<u>(372,804)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITY</b>	
Proceeds from loan payable - related party	<u>250,000</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	1,167,550
<b>CASH AND CASH EQUIVALENTS - BEGINNING OF PERIOD</b>	<u>-</u>
<b>CASH AND CASH EQUIVALENTS - END OF PERIOD</b>	<u><u>\$ 1,167,550</u></u>
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:</b>	
Cash paid during the year for interest	<u><u>\$ 4,063</u></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, 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 188 students in grades kindergarten and first during the 2010-2011 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 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.

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

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

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.

Cash and Cash Equivalents

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

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	5 years
Furniture and fixtures	7 years
Website development	3 years
Leasehold improvements	15 years

Refundable Advances and Deferred Revenue

The School records certain government grants and contracts as refundable advances and deferred revenue 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, 2011

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.

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, 2011.

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

NOTE 4 - PROPERTY AND EQUIPMENT

Property and equipment consist of the following at June 30, 2011:

Equipment	\$ 168,956
Furniture and fixture	102,323
Website design	2,183
Leasehold improvements	<u>99,342</u>
	372,804
Less: Accumulated depreciation and amortization	<u>48,744</u>
	<u>\$ 324,060</u>

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

NOTE 5 - RELATED PARTY TRANSACTIONS

The School is an affiliate of Success Charter Network (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 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 period from February 17, 2010 (inception) to June 30, 2011, the School incurred \$253,867 in management fees 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, 2011 amounted to \$81,066. This balance represents expenses paid by the Network on behalf of the School. The School fully repaid this balance prior to the issuance of this report.

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

NOTE 5 - RELATED PARTY TRANSACTIONS (Continued)

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 and will receive the remaining \$300,000 during the year ending June 30, 2012. 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, 2011 was \$250,000. The School paid \$4,063 in interest expense on this loan for the period from February 17, 2010 (inception) to June 30, 2011.

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.

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 \$74,714 for the period from February 17, 2010 (inception) to June 30, 2011.

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

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 period from February 17, 2010 (inception) to June 30, 2011 amounted to \$24,345.

NOTE 11 - SUBSEQUENT EVENTS

In preparing these financial statements, the School has evaluated events and transactions for potential recognition or disclosure through September 23, 2011, 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

Our report on our audit of the basic financial statements of Bronx Success Academy Charter School 1 (a not-for-profit corporation) as of June 30, 2011, appears on Page 1. We conducted our audit in accordance with auditing standards generally accepted in the United States of America for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedule of functional expenses is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements as a whole.

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

New York, New York  
September 23, 2011

BRONX SUCCESS ACADEMY CHARTER SCHOOL 1  
(A Not-For-Profit Corporation)  
SCHEDULE OF FUNCTIONAL EXPENSES  
FOR THE PERIOD FROM FEBRUARY 17, 2010 (INCEPTION) TO JUNE 30, 2011

	Regular Education	Special Education	Total Program Service	Management and General	Total
Salaries	\$ 953,533	\$ 231,300	\$ 1,184,833	\$ 103,028	\$ 1,287,861
Payroll taxes and employee benefits	223,219	54,147	277,366	24,118	301,484
Professional development	91,894	25,859	117,753	-	117,753
Legal	-	-	-	74,714	74,714
Audit and accounting	-	-	-	20,000	20,000
Professional fees - other	6,618	1,605	8,223	715	8,938
Travel and entertainment	9,080	2,202	11,282	981	12,263
Student food service	46,207	13,003	59,210	-	59,210
Field trips	15,904	4,476	20,380	-	20,380
Instructional supplies and textbooks	279,988	78,787	358,775	-	358,775
Management fee	-	-	-	253,867	253,867
Interest expense	-	-	-	4,063	4,063
Teacher recruitment	40,193	11,310	51,503	-	51,503
Student recruitment	130,819	36,811	167,630	-	167,630
Marketing	2,874	809	3,683	-	3,683
Consulting	3,083	748	3,831	333	4,164
Uniforms	3,850	1,083	4,933	-	4,933
Office supplies	37,026	8,981	46,007	4,001	50,008
Computer supplies	2,119	514	2,633	229	2,862
School culture	10,145	2,854	12,999	-	12,999
Special events	12,669	3,073	15,742	1,370	17,112
Equipment rental	2,094	508	2,602	226	2,828
Student assessments	8,993	2,531	11,524	-	11,524
Telephone and internet services	19,184	4,654	23,838	2,072	25,910
Postage and delivery	9,249	2,243	11,492	1,000	12,492
Insurance	17,112	4,151	21,263	1,849	23,112
Facilities expense	52,685	12,780	65,465	5,693	71,158
Information technology	20,706	5,023	25,729	2,236	27,965
Depreciation and amortization	36,090	8,754	44,844	3,900	48,744
Miscellaneous	-	-	-	1,258	1,258
Total	<u>\$ 2,035,334</u>	<u>\$ 518,206</u>	<u>\$ 2,553,540</u>	<u>\$ 505,653</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 June 30, 2011 and for the period from February 17, 2010 to June 30, 2011, and have issued our report thereon dated September 23, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

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  
September 23, 2011

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REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL  
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

TO THE BOARD OF TRUSTEES  
BRONX SUCCESS ACADEMY CHARTER SCHOOL 1

Compliance

We have audited Bronx Success Academy Charter School 1's (the "School") compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the School's major federal programs for the year ended June 30, 2011. The School's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements referred to above is the responsibility of the School's management. Our responsibility is to express an opinion on the School's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program identified in the accompanying schedule of findings and questioned costs occurred. An audit includes examining, on a test basis, evidence about the School's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the School's compliance with those requirements.

In our opinion, the School complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs identified in the accompanying schedule of findings and questioned costs for the year ended June 30, 2011.

Internal Control Over Compliance

The management of the School is responsible for establishing and maintaining effective internal control over compliance with the compliance requirements referred to above. In planning and performing our audit, we considered the School's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the School's internal control over compliance.

TO THE BOARD OF TRUSTEES  
BRONX SUCCESS ACADEMY CHARTER SCHOOL 1

*A deficiency in internal control over compliance* exist when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis.

*A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance 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 in internal control over compliance. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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  
September 23, 2011

BRONX SUCCESS ACADEMY CHARTER SCHOOL 1  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2011

A - SUMMARY OF AUDITORS' RESULTS

1. The auditors' report expresses an unqualified opinion on the financial statements of Bronx Success Academy Charter School 1.
2. No significant deficiencies and no material weaknesses were discovered during the audit of the financial statements.
3. No instances of noncompliance material to the financial statements of Bronx Success Academy Charter School 1, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. No significant deficiencies and no material weaknesses relating to the audit of the major federal award program are reported in accordance with OMB Circular A-133.
5. The auditors' report on compliance for the major federal award programs for Bronx Success Academy Charter School 1 expresses an unqualified opinion on all major federal programs.
6. No audit findings relative to the major federal award programs for Bronx Success Academy Charter School 1 are reported in this schedule.
7. The programs tested as major programs included:
  - Charter Schools Program, CFDA No. 84.282
  - Charter Schools Program for Replication and Expansion  
of High-Quality Charter Schools, CFDA No. 84.282M
8. The threshold used for distinguishing between Type A and B programs was \$300,000.
9. Bronx Success Academy Charter School 1 did not qualify as a low-risk auditee.

B - FINDINGS - FINANCIAL STATEMENTS AUDIT

None

C - FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT

None

BRONX SUCCESS ACADEMY CHARTER SCHOOL 1  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2011

Federal Grantor Pass-through Grantor Program Name/Cluster	Federal CFDA Number	Federal Expenditures
U.S. Department of Education: Passed through the New York State Education Department.		
Charter Schools Program	84.282	\$ 271,122
Charter Schools Program for Replication and Expansion of High-Quality Charter Schools	84.282M	306,444
Special Education - IDEA	84.027	31,739
Title I Part A	84.010	113,098
Title II Part A	84.367	<u>14,651</u>
Total Expenditures of Federal Awards		<u>\$ 737,054</u>

See accompanying notes to schedule of expenditures of federal awards.

BRONX SUCCESS ACADEMY CHARTER SCHOOL 1  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2011

NOTE A - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Bronx Success Academy Charter School 1 and is presented on the accrual basis of accounting for the year ended June 30, 2011. The information in this schedule is presented in accordance with the requirements on OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements.