

BRONX CHARTER SCHOOL FOR EXCELLENCE

BRONX, NEW YORK

AUDITED FINANCIAL STATEMENTS

OTHER FINANCIAL INFORMATION

REPORT REQUIRED BY
GOVERNMENT AUDITING STANDARDS

AND

INDEPENDENT AUDITOR'S REPORTS

JUNE 30, 2017



MENGEL METZGER BARR & CO. LLP

Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Bronx Charter School for Excellence

Report on the Financial Statements

We have audited the accompanying financial statements of Bronx Charter School for Excellence which comprise the statement of financial position as of June 30, 2017, and the related statements of activities and changes in net assets, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 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 financial statements referred to above present fairly, in all material respects, the financial position of Bronx Charter School for Excellence as of June 30, 2017, 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.

Other Report Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 30, 2017 on our consideration of Bronx Charter School for Excellence'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 internal 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's internal control over financial reporting and compliance.

Mengel, Metzger, Baw & Co. LLP

Rochester, New York
October 30, 2017

BRONX CHARTER SCHOOL FOR EXCELLENCE

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2017

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 4,058,737
Cash in escrow	100,000
Grants and contracts receivable	537,248
Prepaid expenses	74,434
Security deposits	9,185
Due from related party	<u>40,781</u>
TOTAL CURRENT ASSETS	4,820,385

PROPERTY AND EQUIPMENT, net 33,122,435

OTHER ASSETS

Investments - restricted	<u>2,572,520</u>
TOTAL ASSETS	<u>\$ 40,515,340</u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Current portion of bonds payable	\$ 470,000
Accounts payable	275,192
Accrued expenses	394,221
Accrued payroll and benefits	487,364
Accrued construction retainage	86,147
Deferred revenue	4,061
Deferred lease incentive	6,587
Due to charter management organization	<u>1,423,195</u>
TOTAL CURRENT LIABILITIES	3,146,767

OTHER LIABILITIES

Bonds payable, net of unamortized bond issuance costs of \$1,181,519	23,505,301
Reserve for payment of debt service	1,540,000
Deferred lease liability	<u>145,869</u>
TOTAL OTHER LIABILITIES	25,191,170

NET ASSETS, unrestricted

TOTAL LIABILITIES AND NET ASSETS	<u>\$ 40,515,340</u>
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The accompanying notes are an integral part of the financial statements.

BRONX CHARTER SCHOOL FOR EXCELLENCE

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

YEAR ENDED JUNE 30, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenue, gains and other support:			
Public school district			
Resident student enrollment	\$ 13,373,465	\$ -	\$ 13,373,465
Students with disabilities	1,013,401	-	1,013,401
Grants and contracts:			
State and local	262,412	-	262,412
Federal - Title and IDEA	468,772	-	468,772
Federal - other	159,571	-	159,571
	<hr/>	<hr/>	<hr/>
TOTAL REVENUE, GAINS AND OTHER SUPPORT	15,277,621	-	15,277,621
Expenses:			
Program:			
Regular education	8,366,370	-	8,366,370
Special education	1,366,235	-	1,366,235
	<hr/>	<hr/>	<hr/>
TOTAL PROGRAM EXPENSES	9,732,605	-	9,732,605
Management and general	1,368,518	-	1,368,518
Fundraising and special events	24,066	-	24,066
	<hr/>	<hr/>	<hr/>
TOTAL OPERATING EXPENSES	11,125,189	-	11,125,189
SURPLUS FROM SCHOOL OPERATIONS	4,152,432	-	4,152,432
Support and other revenue:			
Contributions			
Foundations	10,000		10,000
Individuals	51	-	51
Contributed services	110,716	-	110,716
Fundraising	41,889	-	41,889
Investment income	8,051	-	8,051
Miscellaneous income	97,811	-	97,811
Net assets released from restriction	175,332	(175,332)	-
	<hr/>	<hr/>	<hr/>
TOTAL SUPPORT AND OTHER REVENUE	443,850	(175,332)	268,518
CHANGE IN NET ASSETS	4,596,282	(175,332)	4,420,950
Net assets at beginning of year	<hr/>	<hr/>	<hr/>
	7,581,121	175,332	7,756,453
NET ASSETS AT END OF YEAR	<u>\$ 12,177,403</u>	<u>\$ -</u>	<u>\$ 12,177,403</u>

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

BRONX CHARTER SCHOOL FOR EXCELLENCE

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2017

	No. of Positions	Program Services			Supporting Services			Total
		Regular Education	Special Education	Sub-total	Management and general	Fundraising and special events	Sub-total	
Personnel Services Costs:								
Administrative staff personnel	11	\$ 120,545	\$ 24,109	\$ 144,654	\$ 86,521	\$ 9,917	\$ 96,438	\$ 241,092
Instructional personnel	43	2,129,076	372,799	2,501,875	-	-	-	2,501,875
Non-instructional personnel	3	482,288	67,518	549,806	125,373	-	125,373	675,179
Total salaries and wages	57	2,731,909	464,426	3,196,335	211,894	9,917	221,811	3,418,146
Payroll taxes and employee benefits		769,530	136,613	906,143	51,891	2,422	54,313	960,456
Professional development		21,626	3,839	25,465	1,458	69	1,527	26,992
Legal fees		-	-	-	112,245	-	112,245	112,245
Audit/accounting fees		-	-	-	32,109	-	32,109	32,109
Professional services		559,491	93,021	652,512	508,572	1,493	510,065	1,162,577
Student and staff recruitment		7,644	1,357	9,001	515	24	539	9,540
Curriculum and classroom supplies		379,473	22,605	402,078	7,540	352	7,892	409,970
Office expenses		106,862	18,972	125,834	7,206	336	7,542	133,376
Food service		28	-	28	-	-	-	28
Student services		129,701	14,017	143,718	-	-	-	143,718
Insurance		17,785	3,157	20,942	89,988	56	90,044	110,986
Building and Land Rent / Lease		253,387	44,983	298,370	17,086	798	17,884	316,254
Utilities		168,820	29,970	198,790	11,384	531	11,915	210,705
Non-capitalized equipment and furnishings		6,833	1,537	8,370	-	171	171	8,541
Repairs and maintenance		187,047	33,206	220,253	12,613	588	13,201	233,454
Depreciation and amortization		671,762	99,610	771,372	91,338	237	91,575	862,947
Interest expense		871,049	137,989	1,009,038	52,413	2,446	54,859	1,063,897
Management fees		1,469,813	260,933	1,730,746	99,112	4,626	103,738	1,834,484
Replication expenses		13,610	-	13,610	-	-	-	13,610
Other		-	-	-	61,154	-	61,154	61,154
		<u>\$ 8,366,370</u>	<u>\$ 1,366,235</u>	<u>\$ 9,732,605</u>	<u>\$ 1,368,518</u>	<u>\$ 24,066</u>	<u>\$ 1,392,584</u>	<u>\$ 11,125,189</u>

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

BRONX CHARTER SCHOOL FOR EXCELLENCE

STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2017

CASH FLOWS - OPERATING ACTIVITIES

Change in net assets	\$ 4,420,950
Adjustments to reconcile change in net assets to net cash provided from operating activities:	
Depreciation and amortization	862,947
Contributed property and equipment	(12,100)
Bond premium amortization	(90,338)
Amortization of bond issuance costs included in interest expense	93,773
Changes in certain assets and liabilities affecting operations:	
Grants and contracts receivable	(61,273)
Prepaid expense	22,902
Due from related party	88,588
Accounts payable	(254,628)
Accrued expenses	39,844
Accrued payroll and benefits	(511,812)
Accrued construction retainage	(373,967)
Deferred revenue	1,327
Deferred lease incentive	(4,160)
Due to charter management organization	1,423,195
Deferred lease liability	<u>145,869</u>
NET CASH PROVIDED FROM OPERATING ACTIVITIES	5,791,117

CASH FLOWS - INVESTING ACTIVITIES

Purchases of property and equipment	(1,612,118)
Increase in cash in escrow	(100,000)
Proceeds from sale of investments	<u>(62,401)</u>
NET CASH USED FOR INVESTING ACTIVITIES	<u>(1,774,519)</u>

CASH FLOWS - FINANCING ACTIVITIES

Repayments of bonds payable	<u>(445,000)</u>
NET CASH USED FOR FINANCING ACTIVITIES	<u>(445,000)</u>

NET INCREASE IN CASH AND CASH EQUIVALENTS 3,571,598

Cash and cash equivalents at beginning of year	<u>487,139</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 4,058,737</u>

BRONX CHARTER SCHOOL FOR EXCELLENCE

STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2017

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Cash paid during the year for interest, not including capitalized interest of \$156,351	<u>\$ 975,687</u>
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NON-CASH OPERATING AND FINANCING ACTIVITIES

Contributed property and equipment	<u>\$ 12,100</u>
Purchases of property and equipment included in accounts payable	<u>\$ 43,017</u>

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

BRONX CHARTER SCHOOL FOR EXCELLENCE

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

NOTE A: THE CHARTER SCHOOL AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Charter School

Bronx Charter School for Excellence (the “Charter School”) is an educational corporation operating as a charter school in the borough of the Bronx, New York. On April 29, 2003, the Board of Regents of the University of the State of New York granted Bronx Charter School for Excellence (“Bronx Excellence 1”) a provisional charter valid for a term of five years and renewable upon expiration. In March 2009 and January 2014, Bronx Excellence 1 was awarded a full-term, five-year charter renewal. The current Charter renewal is through July 31, 2019. Bronx Excellence 1 was established to prepare young people from New York City to compete for admission to, and succeed in, top public, private and parochial schools by cultivating their intellectual, artistic, social, emotional and ethical development. Bronx Excellence 1 offers a challenging and rigorous academic curriculum which, at the earliest of grades, has an eye towards college preparation for grades first through eighth.

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

On March 24, 2017, the Board of Regents of the University of the State of New York amended the charter agreement permitting an additional school to be opened by the Charter School. During the 2017 fiscal year, the Charter School added Bronx Charter School for Excellence 3 (“Bronx Excellence 3”) under its expanded charter. Bronx Excellence 3 has the authority to operate through July 31, 2022. Bronx Excellence 3 was established to provide its students with a solid foundation for academic success, through achievement that exceeds citywide averages and meets or exceeds New York State Standards and national norms in all curriculum areas tested, especially in mathematics and language arts.

The accompanying financial statements include the accounts of Bronx Excellence 1, Bronx Excellence 2 and Bronx Excellence 3 (collectively referred to as the “Charter School”). All intercompany balances and transactions have been eliminated in the accompanying financial statements.

Financial Statement presentation

The financial statements of the Charter School have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America (GAAP). The financial statements for Bronx Charter School for Excellence as of and for the year ended June 30, 2016 were combined with Excellence Community Schools, Inc. and are, therefore, not included as comparative information. The Charter School 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

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2017

NOTE A: THE CHARTER SCHOOL 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 Charter School is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Charter School. The Charter School had no permanently restricted net assets at June 30, 2017.

Temporarily restricted – Net assets resulting from contributions and other inflows of assets whose use by the Charter School is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Charter School pursuant to those stipulations. There were no temporarily restricted net assets at June 30, 2017.

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

Revenue and support recognition

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

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

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

Contributions

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

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

Cash and cash equivalents

Cash and cash equivalent balances are maintained at financial institutions located in New York and are insured by the FDIC up to \$250,000 at each institution. The Charter School 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 Charter School has not experienced any losses in such accounts and does not believe it is exposed to significant risk in cash and cash equivalents.

BRONX CHARTER SCHOOL FOR EXCELLENCE

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2017

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

Cash in escrow

The Charter School maintains cash in an escrow account in accordance with the terms of its charter agreement. The amount in escrow was \$100,000 at June 30, 2017.

Grants and contracts receivable

Grants and contracts 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, 2017.

Property and equipment

Property and equipment are recorded at cost. The Charter School 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. Prior to the bond issuance (Note G), leasehold improvements at Bronx Excellence 1 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. All other leasehold improvements are being amortized over the shorter of the estimated useful life of the asset or the remaining term of the related lease.

Bond issuance costs

In April 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2015-03, "Interest – Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs". ASU 2015-03 simplifies the presentation of bond issuance costs by requiring that bond issuance costs related to a recognized bond liability be presented in the statement of financial position as a direct deduction from the carrying amount of that bond liability, consistent with debt discounts. Under the previous practice, bond issuance costs were recognized as an asset. Bond issuance costs, which consist of deferred financing charges, are stated at cost and are amortized over the term of the bonds which vary from 5 to 30 years through various dates up to April 2043. The Charter School now shows bond issuance costs as a deduction from the carrying amount of bonds payable, net on the accompanying statement of financial position.

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.

BRONX CHARTER SCHOOL FOR EXCELLENCE

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2017

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

Deferred lease liability

The Charter School leases a facility. The lease contains pre-determined fixed escalation of the base rent. In accordance with GAAP, the Charter School recognizes the related rent expense on a straight-line basis over three years which is the lease term and records the difference between the recognized rental expense and the amounts payable under the lease as a deferred lease liability.

Investments - restricted

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

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

Tax exempt status

The Charter School is a tax exempt organization under Section 501(c)(3) of the Internal Revenue Code and applicable state regulations and, accordingly, is exempt from federal and state taxes on income. The Charter School files Form 990 tax returns in the U.S. federal jurisdiction. The tax returns for the years ended June 30, 2014 through June 30, 2017 are still subject to potential audit by the IRS. Management of the Charter School 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 financial statements.

The Charter School received contributed legal services which were valued at \$98,616 and contributed property and equipment which were valued at \$12,100 and are included in contributed services in the accompanying statement of activities and changes in net assets for the year ended June 30, 2017.

In-kind contributions

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

Marketing and recruiting costs

The Charter School expenses marketing and recruiting costs as they are incurred. Total marketing and recruiting costs approximated \$9,500 for the year ended June 30, 2017.

BRONX CHARTER SCHOOL FOR EXCELLENCE

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2017

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

Use of estimates in the preparation of financial statements

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. Actual results could differ from those estimates.

Subsequent events

The Charter School has conducted an evaluation of potential subsequent events occurring after the statement of financial position date through October 30, 2017, which is the date the financial statements are available to be issued. No subsequent events requiring disclosure were noted, except as disclosed in Note C.

NOTE B: RELATED PARTY TRANSACTIONS

Excellence Community Schools, Inc. ("Excellence"), a not-for-profit organization dedicated to helping start and run charter schools, provides management and other administrative support services to the Charter School entered into an educational services agreement with Excellence effective July 1, 2016 through June 30, 2021 whereby Excellence will provide the Charter School with services related to education and instruction, business operations, human resources and employment. In turn, Excellence shall be paid a fee equal to 13% of all public revenues received by the Charter School during the fiscal year. The Charter School incurred fees of approximately \$1,834,000 for the year ended June 30, 2017, all of which were accrued in due to charter management organization on the accompanying statement of financial position at June 30, 2017. Also included in this amount is approximately \$411,000 of amounts due to the Charter School from Excellence for expenses that are to be reimbursed by Excellence subsequent to June 30, 2017. In addition, the Charter School is in the process of formalizing sub-lease agreements for two facilities with Excellence. See Note C for more details.

Stamford Charter School for Excellence ("Stamford") is an educational corporation that operates as a charter school in Stamford, Connecticut. The Charter School paid for certain benefits on behalf of Stamford in the amount of \$40,781 during the year ended June 30, 2017 which were included as a due from related party on the accompanying statement of financial position at June 30, 2017.

BRONX CHARTER SCHOOL FOR EXCELLENCE

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2017

NOTE C: SCHOOL FACILITIES

The Charter School leases the facility for the Bronx Excellence 2 location. Effective July 1, 2016, the Charter School assigned the lease to Excellence. The sub-lease agreement between the Charter School and Excellence has not been finalized as of the report date, but they are operating under the same terms of the original lease agreement. The lease term is through June 30, 2021. Total rental expense was approximately \$316,000 for the year ended June 30, 2017.

Future expected minimum payments for this lease are approximately as follows:

<u>Year ending June 30,</u>	<u>Amount</u>
2018	\$ 340,000
2019	347,000
2020	354,000
2021	<u>361,000</u>
	<u>\$ 1,402,000</u>

In September 2017, the Charter School commenced the process to enter into a sub-lease agreement with Excellence for the facility for the Bronx Excellence 3 location. The sub-lease agreement has not been finalized as of the report date. The term of the lease begins August 9, 2017 and goes through July 31, 2032.

Future expected minimum payments of this lease are approximately as follows:

<u>Year ending June 30,</u>	<u>Amount</u>
2018	\$ 645,000
2019	999,000
2020	1,049,000
2021	1,075,000
2022	1,102,000
Thereafter	<u>12,774,000</u>
	<u>\$ 17,644,000</u>

BRONX CHARTER SCHOOL FOR EXCELLENCE

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2017

NOTE D: PROPERTY AND EQUIPMENT

Property and equipment at June 30, 2017 consists of the following:

Land	\$ 914,772
Buildings	33,153,744
Furniture and fixtures	324,194
Computers and equipment	616,071
Software	12,661
Leasehold improvements	<u>920,657</u>
	35,942,099
Less accumulated depreciation and amortization	<u>2,819,664</u>
	<u>\$ 33,122,435</u>

Total depreciation and amortization expense was \$862,947 for the year ended June 30, 2017.

NOTE E: OPERATING LEASES AND COMMITMENTS

During January 2014, the Charter School canceled its lease of office equipment under a lease agreement that would have expired March 2016. The Charter School entered into a new lease for office equipment under a non-cancelable lease agreement at a monthly cost of \$2,578 that will expire February 2019. Associated with this new lease the Charter School received a buy-out for the remaining payments for its prior lease totaling \$20,800. The Charter School recorded the total buy-out amount as a deferred lease incentive and will recognize approximately \$350 per month for the duration of the new lease as other income. The Charter School recognized approximately \$4,160 for the year ended June 30, 2017.

The Charter School leases office equipment under non-cancelable lease agreements at a monthly cost of \$7,378 that will expire at various dates through December 2026.

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

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

<u>Year ending June 30,</u>	<u>Amount</u>
2018	\$ 89,000
2019	75,000
2020	57,000
2021	57,000
2022	39,000
Thereafter	<u>70,000</u>
	<u>\$ 387,000</u>

BRONX CHARTER SCHOOL FOR EXCELLENCE

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2017

NOTE F: FAIR VALUE MEASUREMENTS

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

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets.

Level 2 - Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

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

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

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

Following is a description of the valuation methodologies used for assets and liabilities measured at fair value. There have been no changes in the methodologies used at June 30, 2017:

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 Charter School 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

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2017

NOTE F: FAIR VALUE MEASUREMENTS, Cont'd

The following table sets forth by level, within the fair value hierarchy; the Charter School's restricted investment assets measured at fair value on a recurring basis as of June 30, 2017:

	Assets at Fair Value			
	Level 1	Level 2	Level 3	Total
<u>June 30, 2017:</u>				
Money market	\$ 2,494,090	\$ -	\$ -	\$ 2,494,090
Commercial paper	-	78,430	-	78,430
Total assets at fair value	<u>\$ 2,494,090</u>	<u>\$ 78,430</u>	<u>\$ -</u>	<u>\$ 2,572,520</u>

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 financial statements.

NOTE G: BONDS PAYABLE

During April 2013, Build NYC Resource Corporation issued \$23,310,000 in principal amount of Tax-Exempt Fixed Rate Revenue Bonds ("Series A") and \$690,000 in principal amount of Taxable Fixed Rate Revenue Bonds ("Series B"). Proceeds from the sale included a premium of \$2,111,744, which is being amortized over the life of the bond issue. The proceeds of the bonds were made available to the Charter School pursuant to a special agreement with Build NYC Resource Corporation. The remaining proceeds were used to construct additional schools and for renovation of the current school facilities.

Revenue bonds outstanding as of June 30, 2017:

Year	Series A		Series B		Total
	Principal	Interest Rate	Principal	Interest Rate	
2018	\$ 380,000	3%	\$ 90,000	5%	\$ 470,000
2019	485,000	3%	-	-	485,000
2020	505,000	3%	-	-	505,000
2021	525,000	4%	-	-	525,000
2022	545,000	4%	-	-	545,000
Thereafter	<u>20,870,000</u>	4% - 5.5%	-	-	<u>20,870,000</u>
Bond payable	23,310,000		90,000		23,400,000
Unamortized bond premium	1,756,820		-		1,756,820
Unamortized bond issuance costs	<u>(1,181,519)</u>		-		<u>(1,181,519)</u>
Balance at June 30, 2017	<u>\$ 23,885,301</u>		<u>\$ 90,000</u>		<u>\$ 23,975,301</u>

BRONX CHARTER SCHOOL FOR EXCELLENCE

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2017

NOTE G: BONDS PAYABLE, Cont'd

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 statement of financial position. The Charter School is obligated to pay an annual fee equal to 0.14% of the bonds outstanding principal amount as of March 31st each year, for the use of these funds as security. The funds are to be repaid to the Charter School Financing Partnership upon expiration of the bonds.

In accordance with the loan agreement, the proceeds from the sale of the revenue bonds were placed in a Project Fund, maintained by U.S. Bank. The trustee is to use the monies in this fund to make payments to or on behalf of the Charter School to pay for the costs of the project upon receipt of written requisitions. Any monies remaining in the Project Fund will be transferred to the Redemption Account of the Bond Fund, to be applied by the trustees towards the redemption of the bonds. At June 30, 2017, the unexpended balance was \$78,430, 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, 2017.

Total issuance costs of approximately \$1,621,000 are being amortized over the life of the bonds. Amortization expense of \$93,773 was recorded and is recognized in interest expense, for the year ended June 30, 2017. The Charter School incurred net interest expense of approximately \$1,126,475 of which \$156,351 was capitalized and is included in property and equipment and approximately \$970,124 is recognized in the statement of activities and changes in net assets for the year ended June 30, 2017.

NOTE H: RETIREMENT PLAN

The Charter School sponsors a defined contribution 403(b) plan covering all eligible employees. The Charter School matches up to 5% of each employee's annual compensation not to exceed the employee's salary deferral amount. The Charter School may also elect to make additional contributions to the plan on a discretionary basis. For the year ended June 30, 2017, the Charter School made contributions of approximately \$49,800.

BRONX CHARTER SCHOOL FOR EXCELLENCE

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2017

NOTE I: CONTINGENCY

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

At June 30, 2017, approximately 77% of grants and contracts receivable are due from New York State relating to certain grants.

For the year ended June 30, 2017, 94% 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

OTHER FINANCIAL INFORMATION

INDEPENDENT AUDITOR'S REPORT ON OTHER FINANCIAL INFORMATION

Board of Trustees
Bronx Charter School for Excellence

We have audited the financial statements of Bronx Charter School for Excellence as of and for the year ended June 30, 2017, and have issued our reports thereon dated October 30, 2017, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The 2017 financial information hereinafter is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements for the year ended June 30, 2017, as a whole.

Mengel, Metzger, Barr & Co. LLP

Rochester, New York
October 30, 2017

BRONX CHARTER SCHOOL FOR EXCELLENCE

STATEMENT OF ACTIVITIES BY CHARTER

YEAR ENDED JUNE 30, 2017

	<u>Bronx Excellence 1</u>	<u>Bronx Excellence 2</u>	<u>Bronx Excellence 3</u>	<u>Total</u>
Revenue, gains and other support:				
Public school district				
Resident student enrollment	\$ 11,675,018	\$ 1,698,447	\$ -	\$ 13,373,465
Students with disabilities	902,112	111,289	-	1,013,401
Grants and contracts:				
State and local	63,837	198,575	-	262,412
Federal - Title and IDEA	411,507	57,265	-	468,772
Federal - other	<u>63,976</u>	<u>95,595</u>	-	<u>159,571</u>
Other	-	-	-	-
Food service / Child nutrition program	-	-	-	-
TOTAL REVENUE, GAINS AND OTHER SUPPORT	13,116,450	2,161,171	-	15,277,621
Expenses:				
Program:				
Regular education	7,130,738	1,234,563	1,069	8,366,370
Special education	<u>1,190,116</u>	<u>176,005</u>	<u>114</u>	<u>1,366,235</u>
TOTAL PROGRAM EXPENSES	8,320,854	1,410,568	1,183	9,732,605
Management and general	1,157,252	209,028	2,238	1,368,518
Fundraising and special events	<u>19,169</u>	<u>4,897</u>	-	<u>24,066</u>
TOTAL OPERATING EXPENSES	<u>9,497,275</u>	<u>1,624,493</u>	<u>3,421</u>	<u>11,125,189</u>
 SURPLUS (DEFICIT) FROM SCHOOL OPERATIONS	3,619,175	536,678	(3,421)	4,152,432
Support and other revenue:				
Contributions				
Foundations	10,000	-	-	10,000
Individuals	51	-	-	51
Corporations	-	-	-	-
Contributed services	98,712	9,769	2,235	110,716
Fundraising	41,889	-	-	41,889
Investment income	8,051	-	-	8,051
Miscellaneous income	<u>97,811</u>	-	-	<u>97,811</u>
TOTAL SUPPORT AND OTHER REVENUE	<u>256,514</u>	<u>9,769</u>	<u>2,235</u>	<u>268,518</u>
 CHANGE IN NET ASSETS	3,875,689	546,447	(1,186)	4,420,950
Net assets at beginning of year	<u>7,756,453</u>	-	-	<u>7,756,453</u>
NET ASSETS (DEFICIT) AT END OF YEAR	<u>\$ 11,632,142</u>	<u>\$ 546,447</u>	<u>\$ (1,186)</u>	<u>\$ 12,177,403</u>

BRONX CHARTER SCHOOL FOR EXCELLENCE

REPORT REQUIRED BY GOVERNMENT AUDITING STANDARDS

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Trustees
Bronx Charter School for Excellence

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 financial statements of Bronx Charter School for Excellence which comprise the statement of financial position as of June 30, 2017 and the related statements of activities and changes in net assets, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 30, 2017.

Internal Control over Financial Reporting

Management of Bronx Charter School for Excellence is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit of the financial statements, we considered Bronx Charter School for Excellence'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's internal control. Accordingly, we do not express an opinion on the effectiveness of Bronx Charter School for Excellence'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 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'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 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 in a separate letter dated October 30, 2017.

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.

Mengel, Metzger, Baw & Co. LLP

Rochester, New York
October 30, 2017

BRONX CHARTER SCHOOL FOR EXCELLENCE

AGREED UPON PROCEDURES

YEAR ENDED JUNE 30, 2017



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-10A, and 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 noted the Charter School had no payroll expenses tagged to the grant, therefore payroll testing was not applicable. We selected a sample of four other expenditures. Based on our testing, we noted that the expenditures fall into the appropriate budget category and that the expenditures were charged to the appropriate fiscal period. For all selections, we observed that the expenditures were in accordance with the purpose of the grant and that pre-opening expenditures are charged to pre-opening periods.

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

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

Result

We obtained Bronx Charter School for Excellence's FS-25 and noted the selected items were appropriately included in the request for reimbursement. The requests for reimbursement appear to be in the appropriate period. The Charter School had one FS-25 during the period which had a balance on Line 4 (Cash Expenditures Anticipated During Next Month). We noted the funds were expended within one month following the date of request.

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

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

Result

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

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

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

Mengel, Metzger, Bar & Co. LLP

Rochester, New York
October 4, 2017

BRONX CHARTER SCHOOL FOR EXCELLENCE

ADVISORY COMMENT LETTER

JUNE 30, 2017



MENGEL METZGER BARR & CO. LLP

Certified Public Accountants

October 30, 2017

To the Board of Trustees
Bronx Charter School for Excellence

In planning and performing our audit of the financial statements of Bronx Charter School for Excellence (the “Organization”) as of and for the year ended June 30, 2017, in accordance with auditing standards generally accepted in the United States of America, we considered the Organization’s internal control over financial reporting (internal control) 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 Organization’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization’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.

Our audit was also not designed to identify deficiencies in internal control that might be significant deficiencies. 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. We do not consider the following matters to be significant deficiencies or material weaknesses.

Sublease of Office Space

During our 2017 audit, we noted the Organization is currently subleasing space from a related party; however, there is no formal sublease agreement that has been executed.

Recommendation

We recommend the Organization's arrangement be formalized with a signed sublease agreement between the two entities.

* * * * *

This communication is intended solely for the information and use of Management, Finance Committee Members, the Board of Trustees, 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'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