

**BRONX ACADEMY OF
PROMISE CHARTER SCHOOL**

**FINANCIAL STATEMENTS
AND AUDITOR'S REPORTS**

JUNE 30, 2014 AND 2013

BRONX ACADEMY OF PROMISE CHARTER SCHOOL

TABLE OF CONTENTS

Independent Auditor's Report on Financial Statements

Exhibit

A - Balance Sheet

B - Statement of Activities

C - Statement of Functional Expenses

D - Statement of Cash Flows

Notes to Financial Statements

BRONX ACADEMY OF PROMISE CHARTER SCHOOL

TABLE OF CONTENTS
(continued)

**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**

Schedule of Findings and Questioned Costs

Collective Action Plan

Independent Auditor's Report on Financial Statements

**Board of Trustees
Bronx Academy of Promise Charter School**

Report on the Financial Statements

We have audited the accompanying financial statements of Bronx Academy of Promise Charter School which comprise the balance sheet as of June 30, 2014 and 2013, and the related statements of activities, functional expenses and cash flows for the years 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 Academy of Promise Charter School as of June 30, 2014 and 2013, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 22, 2014 on our consideration of Bronx Academy of Promise Charter School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Bronx Academy of Promise Charter School's internal control over financial reporting and compliance.



October 22, 2014

BRONX ACADEMY OF PROMISE CHARTER SCHOOL

BALANCE SHEET

JUNE 30, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
ASSETS		
Current assets		
Cash	\$ 3,089,816	\$ 1,612,241
Cash held in escrow	70,000	70,000
Grants and contracts receivable	268,476	43,471
Security deposits (Note 4)	540,815	540,815
Prepaid expenses	<u>156,480</u>	<u>55,969</u>
Total current assets	4,125,587	2,322,496
Fixed assets - net (Note 3)	<u>332,441</u>	<u>204,989</u>
Total assets	<u>\$ 4,458,028</u>	<u>\$ 2,527,485</u>
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable and accrued expenses	\$ 215,019	\$ 152,730
Accrued salaries and related liabilities	505,493	306,780
Deferred rent	<u>499,126</u>	<u></u>
Total current liabilities	1,219,638	459,510
Net assets (deficit) - unrestricted (Exhibit B)	<u>3,238,390</u>	<u>2,067,975</u>
Total liabilities and net assets	<u>\$ 4,458,028</u>	<u>\$ 2,527,485</u>

See independent auditor's report.

The accompanying notes are an integral part of these statements.

EXHIBIT B**BRONX ACADEMY OF PROMISE CHARTER SCHOOL****STATEMENT OF ACTIVITIES****YEARS ENDED JUNE 30, 2014 AND 2013**

	<u>2014</u>	<u>2013</u>
Revenues		
State and local per-pupil operating revenues	\$ 7,661,664	\$ 6,236,526
Government grants and contracts	419,964	394,391
Contributions	28,074	32,077
Miscellaneous income	3,700	129
	<u>8,113,402</u>	<u>6,663,123</u>
Expenses (Exhibit C)		
Program services		
Education	5,202,105	4,053,174
Special education	870,935	1,160,935
	<u>6,073,040</u>	<u>5,214,109</u>
Supporting services		
Management and general	858,579	645,158
Fund raising	11,368	4,245
	<u>869,947</u>	<u>649,403</u>
	<u>6,942,987</u>	<u>5,863,512</u>
Change in net assets before loss on disposal of fixed assets	1,170,415	799,611
Loss on disposal of fixed assets		<u>(111,332)</u>
Change in unrestricted net assets (Exhibit D)	1,170,415	688,279
Net assets (deficit) - unrestricted - beginning of year	<u>2,067,975</u>	<u>1,379,696</u>
Net assets (deficit) - unrestricted - end of year (Exhibit A)	<u>\$ 3,238,390</u>	<u>\$ 2,067,975</u>

See independent auditor's report.

The accompanying notes are an integral part of these statements.

BRONX ACADEMY OF PROMISE CHARTER SCHOOL

EXHIBIT C

STATEMENT OF FUNCTIONAL EXPENSES

YEARS ENDED JUNE 30, 2014 AND 2013

2014

	No. of Positions	Program Services			Supporting Services		Total
		Education	Special Education	Total	Management and General		
					Fund Raising	Total	
Salaries	10	\$ 196,701	\$ 35,886	\$ 232,587	\$ 356,837	\$ 3,627	\$ 593,051
Administrative	48	2,192,257	311,099	2,503,356			2,503,356
Instructional	3	147,507	20,933	168,440			168,440
Non-instructional							
Total salaries		2,536,465	367,918	2,904,383	356,837	3,627	3,264,847
Payroll taxes and employee benefits							
Occupancy (Note 4)		575,821	120,678	696,499	78,815	801	776,115
Supplies and equipment		1,235,030	264,027	1,499,057	176,447	6,277	1,681,781
Repairs and maintenance		192,158	29,445	221,603	6,467	45	228,115
Printing and postage		9,065	1,956	11,021	1,354	14	12,389
Professional fees		23,309	5,029	28,338	1,417	35	29,790
Insurance		462,018	53,248	515,266	198,323	375	713,964
Travel		33,974	7,330	41,304	5,075	52	46,431
Professional development		45,923	4,748	50,671	3,287	33	53,991
Food service fees		8,129	1,154	9,283	19,738	10	29,021
Technology services		9,129	1,295	10,424	968	36	11,402
Depreciation		23,578	5,087	28,665	3,522	36	32,223
Miscellaneous expenses		41,807	9,020	50,827	6,245	63	57,135
		5,699		5,699	84		5,783
Total expenses (Exhibit B)		\$ 5,202,105	\$ 870,935	\$ 6,073,040	\$ 858,579	\$ 11,368	\$ 6,942,987

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BRONX ACADEMY OF PROMISE CHARTER SCHOOL

EXHIBIT C
-2

STATEMENT OF FUNCTIONAL EXPENSES

YEARS ENDED JUNE 30, 2013 AND 2012

	2013					
	No. of Positions	Program Services		Supporting Services		Total
		Education	Special Education	Management and General	Fund Raising	
Salaries						
Administrative	8	\$ 1,711,333	\$ 475,990	\$ 307,215	\$ 2,180	\$ 309,395
Instructional	43	127,945	16,558	36,337		2,223,660
Non-instructional	3					144,503
Total salaries		1,839,278	492,548	343,552	2,180	2,677,558
Payroll taxes and employee benefits		417,847	147,707	74,436	522	640,512
Occupancy (Note 4)		833,605	294,677	52,741	962	1,181,985
Contracted services		186,990	24,199			211,189
Supplies and equipment		234,010	42,530	3,458	63	280,061
Repairs and maintenance		26,558	9,388	1,680	31	37,657
Printing and postage		2,506	886	159	3	3,554
Professional fees		238,179	73,576	143,975	221	455,951
Dues and subscription		10,862	1,406			12,268
Insurance		23,486	8,302	1,486	27	33,301
Telephone		12,218	4,319	773	14	17,324
Travel		18,533	6,551	1,173	21	26,278
Professional development		4,380	567	588		5,535
Technology services		7,644	2,702	484	9	10,839
Board expenses				10,047		10,047
Depreciation		174,815	51,577	10,583	192	237,167
Miscellaneous expenses		22,263	22,263	23		22,286
Total expenses (Exhibit B)		\$ 4,053,174	\$ 1,160,935	\$ 645,158	\$ 4,245	\$ 5,863,512

See independent auditor's report.

The accompanying notes are an integral part of these statements.

BRONX ACADEMY OF PROMISE CHARTER SCHOOL

STATEMENT OF CASH FLOWS

YEARS ENDED JUNE 30, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
Cash flows from operating activities		
Change in net assets (Exhibit B)	\$ 1,170,415	\$ 688,279
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Loss on disposal of fixed assets		111,332
Depreciation	57,135	237,167
Decrease (increase) in assets		
Grants and contracts receivable	(225,005)	17,383
Security deposits		(40,815)
Prepaid expenses	(100,511)	(18,766)
Increase (decrease) in liabilities		
Accounts payable and accrued expenses	62,289	(67,441)
Accrued salaries and related liabilities	198,713	68,615
Deferred rent	499,126	
	<u>1,662,162</u>	<u>995,754</u>
Net cash provided by operating activities		
Cash flows from investing activities		
Fixed asset acquisitions	<u>(184,587)</u>	<u>(44,783)</u>
Net increase in cash	1,477,575	950,971
Cash - beginning of year	<u>1,612,241</u>	<u>661,270</u>
Cash - end of year	<u>\$ 3,089,816</u>	<u>\$ 1,612,241</u>

See independent auditor's report.

The accompanying notes are an integral part of these statements.

BRONX ACADEMY OF PROMISE CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014 AND 2013

NOTE 1 - NATURE OF ORGANIZATION

Bronx Academy of Promise Charter School (BAOP) is an educational corporation that operates as a charter school in the borough of Bronx, New York City. On April 21, 2008, the Board of Regents and the Board of Trustees of the University of the State of New York, for and on behalf of the State Education Department, granted BAOP a charter valid for a term of 5 years and renewable upon expiration. On June 1, 2013, BAOP's charter was renewed until January 15, 2018. BAOP was organized to increase learning opportunities for students through innovative educational programs and to enable parents to be more involved in their children's education. In fiscal year 2014, BAOP operated classes for 515 students in grades K-7. BAOP began operations on May 1, 2008.

BAOP is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. BAOP is supported primarily by state and local per-pupil operating revenues.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting - The financial statements are prepared on the accrual basis of accounting.

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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash held in escrow - BAOP established an escrow account of \$70,000 as of June 30, 2014 and 2013, which is held aside for contingency purposes as required by the New York City Department of Education.

Receivables - Receivables are recorded when services are rendered. Receivables are presented net of allowances for doubtful accounts. The allowances are based on management's evaluation of the collectibility of the related accounts. Interest is not accrued or recorded on outstanding receivables.

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BRONX ACADEMY OF PROMISE CHARTER SCHOOL**NOTES TO FINANCIAL STATEMENTS****JUNE 30, 2014 AND 2013****NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Allowance for doubtful accounts - BAOP determines whether an allowance for uncollectibles should be provided for receivables. Such estimates are based on management's assessment of the aged basis of its receivables, current economic conditions and historical information. Receivables are written off against the allowance for doubtful accounts when all reasonable collection efforts have been exhausted. BAOP has determined that no allowance for uncollectible accounts for grant and contracts receivable is necessary as of June 30, 2014.

Fixed assets - Fixed assets including leasehold improvements are recorded at cost. Items with a cost of \$3,000 and an estimated useful life of more than one year are capitalized.

Depreciation is computed on the straight-line basis over the estimated useful lives of 3-5 years. Depreciation and amortization on leasehold improvements are amortized on the straight-line basis over the lesser of their useful lives of 37-39 years or the term of the lease, whichever is shorter.

Due to New York City Department of Education - Due to New York City Department of Education is recorded when payments received exceed the per-pupil revenue.

Deferred rent - Operating leases are recorded on the straight-line basis over the term of the lease. Deferred rent is recorded where there are material differences between the fixed payment and the rent expense.

Unrestricted net assets - Unrestricted net assets include funds having no restrictions as to use or purpose imposed by donors.

State and local per-pupil revenues - Revenues from the state and local governments resulting from BAOP's charter status and based on the number of students enrolled are recorded when services are performed in accordance with the charter agreement. Federal and state funds are recorded by BAOP when expenditures are incurred and billed.

Government grants and contracts - Revenues from government grants and contracts to which BAOP is entitled are recognized mostly on student enrollment. Some grants are provided for specific educational endeavors which are not based on student enrollment and are recorded when related expenditures are incurred by BAOP.

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BRONX ACADEMY OF PROMISE CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014 AND 2013

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Contributions - Unconditional contributions, including promises to give cash and other assets, are reported at fair value at the date the contribution is received. All contributions are considered to be available for unrestricted use unless specifically restricted by the donors. The gifts are reported as temporarily or permanently 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 time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions in the accompanying financial statements.

Functional allocation of expenses - The costs of providing the School's programs and other activities have been summarized on a functional basis. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Operating leases - Operating lease payments are charged to rental expense. Operating lease expense has been recorded on the straight-line basis over the life of the lease. Deferred rent, when material, is recorded for the difference between the fixed payment and the rent expense.

Uncertainty in income taxes - BAOP has determined that there are no material uncertain tax positions that require recognition or disclosure in the financial statements. Periods ending June 30, 2011 and subsequent remain subject to examination by applicable taxing authorities.

Subsequent events - Subsequent events have been evaluated through October 22, 2014, which is the date the financial statements were available to be issued.

NOTE 3 - FIXED ASSETS

	<u>2014</u>	<u>2013</u>
Furniture, fixtures and equipment	\$ 483,293	\$ 299,741
Leasehold improvements	177,641	24,256
Construction in progress	<u> </u>	<u>152,350</u>
	660,934	476,347
Accumulated depreciation	<u>(328,493)</u>	<u>(271,358)</u>
	<u>\$ 332,441</u>	<u>\$ 204,989</u>

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BRONX ACADEMY OF PROMISE CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014 AND 2013

NOTE 4 - LEASE COMMITMENT

In August 2012, BAPCS entered into a new lease of a school building located at 1349 Inwood Avenue Bronx, NY. Rent expense as of June 30, 2014 and 2013 was \$864,646 and \$301,405, respectively. A security deposit of \$500,000 was paid for the facility at 1349 Inwood Avenue, which is refundable at the demise of the lease. The lease will expire on July 31, 2027.

The future minimum lease payments as of June 30, 2014 are:

2015	\$ 1,365,780
2016	1,406,753
2017	1,448,956
2018	1,492,425
2019	1,537,197
Thereafter	<u>16,085,048</u>
	<u>\$ 23,336,159</u>

NOTE 5 - PENSIONS

BOAP adopted a 403(b) profit sharing plan (the "Plan") which covers most of the employees. The Plan is a defined contribution plan. Employees are eligible to enroll in the Plan on the first day of the plan year. Those employees who have completed at least 1 full year of service are also eligible for employer contribution. The Plan provides for the School to contribute up to 5% of an employee's salary. BAOP contribution does not become vested until completion of the first year of employment. For the fiscal years ended June 30, 2014 and 2013, pension expense for BAOP was \$55,004 and \$42,406, respectively.

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BRONX ACADEMY OF PROMISE CHARTER SCHOOL**NOTES TO FINANCIAL STATEMENTS****JUNE 30, 2014 AND 2013****NOTE 6 - CONTINGENCIES AND CONCENTRATIONS**

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

Financial instruments that potentially subject BAOP to a concentration of credit risk are cash accounts with financial institutions in excess of FDIC insurance limits. Management believes that the credit risk related to these accounts is minimal.

A significant portion of BAOP's operating revenue is paid by New York City Department of Education.



LOEB & TROPER LLP

**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**

Independent Auditor's Report

**Board of Trustees
Bronx Academy of Promise Charter School**

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 Academy of Promise Charter School, which comprise the balance sheet as of June 30, 2014, and the related statements of activities, 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 22, 2014.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Bronx Academy of Promise Charter School'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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Bronx Academy of Promise Charter School's internal control. Accordingly, we do not express an opinion on the effectiveness of Bronx Academy of Promise Charter School'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 that might be material weaknesses or significant deficiencies. 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.

Compliance and Other Matters

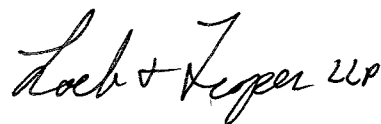
As part of obtaining reasonable assurance about whether Bronx Academy of Promise Charter School's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as item 2014-001.

Bronx Academy of Promise Charter School's Response to Findings

Bronx Academy of Promise Charter School's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Bronx Academy of Promise Charter School's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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.



October 22, 2014

BRONX ACADEMY OF PROMISE CHARTER SCHOOL
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2014

2014-001 Fire Safety Inspection

Criteria

Bronx Academy of Promise Charter School (BAOP) is required to obtain and maintain an up to date Fire Safety Inspection.

Condition/Context

BAOP did not maintain an up to date Fire Safety Inspection.

Effect

We were unable to verify a Fire Safety Inspection.

Cause

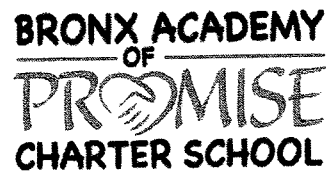
The School relocated to a new building and has not obtained and Fire Safety Inspection for the new location.

Recommendation

We recommend that BAOP obtain a Fire Safety Inspection for the new location as soon as possible.

View of Responsible Officials and Planned Corrective Actions

See corrective action plan.



Corrective Action Plan

2014-001 Fire Safety Inspection

The School scheduled and completed a Fire Safety Inspection. The School passed and there are no outstanding fire safety issues present in the building.