BRONX ACADEMY OF PROMISE CHARTER SCHOOL

FINANCIAL STATEMENTS AND AUDITOR'S REPORTS

JUNE 30, 2012 AND 2011

BRONX ACADEMY OF PROMISE CHARTER SCHOOL

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LOEB & TROPER LLP

Independent Auditor's Report on Financial Statements

Board of Trustees
Bronx Academy of Promise Charter School

We have audited the accompanying statement of financial position of Bronx Academy of Promise Charter School as of June 30, 2012 and 2011, and the related statements of activities, functional expenses and cash flows for the years then ended. These financial statements are the responsibility of Bronx Academy of Promise Charter School's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Bronx Academy of Promise Charter School's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide 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 Bronx Academy of Promise Charter School as of June 30, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 3, 2012 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 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 considered in assessing the results of our audits.

Loeb & Troper LLP

October 3, 2012

EXHIBIT A

BRONX ACADEMY OF PROMISE CHARTER SCHOOL

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2012 AND 2011

	2012	2011
ASSETS		
Current assets		
Cash	$ 661,270	$ 603,038
Cash held in escrow	70,000	70,000
Grants and contracts receivable	60,854	150,649
Security deposits (Note 4)	500,000	
Prepaid expenses	37,203	45,133
Total current assets	1,329,327	868,820
Fixed assets - net (Note 3)	508,705	230,818
Total assets	$ 1,838,032	$ 1,099,638
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable and accrued expenses	$ 220,171	$ 96,550
Accrued salaries and related liabilities	238,165	132,613
Due to New York City Department of Education		73,253
Total current liabilities	458,336	302,416
Net assets (deficit) - unrestricted (Exhibit B)	1,379,696	797,222
Total liabilities and net assets	$ 1,838,032	$ 1,099,638

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, 2012 AND 2011

	2012	2011
Revenues		
State and local per-pupil operating revenues	$ 4,858,146	$ 4,429,231
Government grants and contracts	283,696	351,638
Contributions	34,817	2,040
Miscellaneous income	48	140
Total revenues	5,176,707	4,783,049
Expenses		
Program services		
Education	2,747,049	2,876,266
Special education	520,677	184,748
Total program services	3,267,726	3,061,014
Supporting services		
Management and general	1,324,281	781,912
Fund raising	2,226	14,190
Total supporting services	1,326,507	796,102
Total expenses (Exhibit C)	4,594,233	3,857,116
Change in unrestricted net assets (Exhibit D)	582,474	925,933
Net assets (deficit) - unrestricted - beginning of year	797,222	(128,711)
Net assets (deficit) - unrestricted - end of year (Exhibit A)	$ 1,379,696	$ 797,222

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, 2012 AND 2011

	2012					
	Program Services			Supporting Services		
	Education	Special Education	Total	Management and General	Fund Raising	Total
Salaries	$ 1,496,442	$ 399,072	$ 1,895,514	$ 434,767	$ 1,863	$ 2,332,144
Payroll taxes and employee benefits	200,501	53,470	253,971	58,253	250	312,474
Occupancy (Note 4)	541,584	27,079	568,663	205,028		773,691
Contracted services	78,609	4,489	83,098			83,098
Supplies and equipment	155,552	9,150	164,702	18,300		183,002
Repairs and maintenance	19,322	966	20,288	7,315		27,603
Printing and postage	1,679	84	1,763	635		2,398
Professional fees	97,067	500	97,567	560,103		657,670
Dues and subscription	11,060		11,060			11,060
Insurance	19,350	967	20,317	7,325		27,642
Telephone	8,337	417	8,754	3,156		11,910
Travel	10,805	2,882	13,687	3,139	13	16,839
Professional development	3,599	426	4,025	617		4,642
Technology services	7,239	1,931	9,170	2,103	10	11,283
Board expenses				2,480		2,480
Depreciation	72,161	19,244	91,405	20,965	90	112,460
Miscellaneous expenses	23,742		23,742	95		23,837
Total expenses (Exhibit B)	$ 2,747,049	$ 520,677	$ 3,267,726	$ 1,324,281	$ 2,226	$ 4,594,233

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BRONX ACADEMY OF PROMISE CHARTER SCHOOL

EXHIBIT C
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STATEMENT OF FUNCTIONAL EXPENSES

YEARS ENDED JUNE 30, 2012 AND 2011

	2011					
	Program Services			Supporting Services		
	Education	Special Education	Total	Management and General	Fund Raising	Total
Salaries	$ 1,570,631	$ 115,907	$ 1,686,538	$ 225,413	$ 7,888	$ 1,919,839
Payroll taxes and employee benefits	211,448	15,472	226,920	29,912	1,031	257,863
Occupancy (Note 4)	540,781	19,785	560,566	98,923		659,489
Contracted services	79,831	17,314	97,145		5,271	102,416
Supplies and equipment	185,963	6,804	192,767	34,018		226,785
Repairs and maintenance	20,989	768	21,757	3,840		25,597
Printing and postage	2,889	106	2,995	529		3,524
Professional fees	67,912	500	68,412	354,714		423,126
Dues and subscription	6,976	255	7,231	1,276		8,507
Insurance	21,895	801	22,696	4,005		26,701
Telephone	14,580	533	15,113	2,667		17,780
Travel	12,991	475	13,466	2,376		15,842
Professional development	20,883	1,693	22,576	2,500		25,076
Technology services	19,709	721	20,430	3,605		24,035
Board expenses	28,126	1,029	29,155	5,145		34,300
Depreciation	59,091	2,162	61,253	10,809		72,062
Miscellaneous expenses	11,571	423	11,994	2,180		14,174
Total expenses (Exhibit B)	$ 2,876,266	$ 184,748	$ 3,061,014	$ 781,912	$ 14,190	$ 3,857,116

See independent auditor's report.

The accompanying notes are an integral part of these statements.

EXHIBIT D

BRONX ACADEMY OF PROMISE CHARTER SCHOOL

STATEMENT OF CASH FLOWS

YEARS ENDED JUNE 30, 2012 AND 2011

	2012	2011
Cash flows from operating activities		
Change in net assets (Exhibit B)	$ 582,474	$ 925,933
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	112,460	72,062
Decrease (increase) in assets		
Grants and contracts receivable	89,795	(24,361)
Security deposits	(500,000)	
Prepaid expenses	7,930	(21,088)
Increase (decrease) in liabilities		
Accounts payable and accrued expenses	123,621	(287,002)
Accrued salaries and related liabilities	105,552	82,804
Due to New York City Department of Education	(73,253)	73,253
Net cash provided by operating activities	448,579	821,601
Cash flows from investing activities		
Increase in cash held in escrow		(40,000)
Fixed asset acquisitions	(390,347)	(190,146)
Net cash used by investing activities	(390,347)	(230,146)
Net increase in cash	58,232	591,455
Cash - beginning of year	603,038	11,583
Cash - end of year	$ 661,270	$ 603,038

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, 2012 AND 2011

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. 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 2012, BAOP operated classes for 340 students in grades K-5. BAOP began operations on May 1, 2008.

Bronx Academy of Promise Charter School 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, 2012 and 2011, 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, 2012 AND 2011

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, 2012.

Fixed assets - Fixed assets including leasehold improvements are recorded at cost. Items with a cost of $1,000 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.

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.

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.

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BRONX ACADEMY OF PROMISE CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012 AND 2011

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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, 2009 and subsequent remain subject to examination by applicable taxing authorities.

Subsequent events - Subsequent events have been evaluated through October 3, 2012, which is the date the financial statements were available to be issued.

NOTE 3 - FIXED ASSETS

Furniture, fixtures and equipment	$ 277,628
Leasehold improvements	503,642
	781,270
Accumulated depreciation	(272,565)
	$ 508,705

NOTE 4 - LEASE COMMITMENT

BAOP has a verbal month-to-month rental agreement with Claremon LLC. The total rent expense for the years ended June 30, 2012 and 2011 was $595,000 and $518,000, respectively. In August 2012, BAPCS entered into a new lease of a school building located at 1349 Inwood Avenue Bronx, NY. The annual rent will be $1,326,000. The security deposit paid was $500,000, which is refundable at the demise of the lease.

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BRONX ACADEMY OF PROMISE CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012 AND 2011

NOTE 4 - LEASE COMMITMENT (continued)

The future minimum lease payments as of June 30, 2012 are:

2013	$ 1,326,000
2014	1,365,780
2015	1,406,753
2016	1,448,956
2017	1,492,425
Thereafter	17,582,245
	$ 24,622,159

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 years of service are also eligible for employer contribution. The Plan provides for the School to contribute up to 5% of an employee's salary. BOAP contribution does not become vested until completion of the first year of employment. For the fiscal years ended June 30, 2012 and 2011, pension expense for BOAP was $48,138 and $29,347, respectively.

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

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 Academy of Promise Charter School

We have audited the financial statements of Bronx Academy of Promise Charter School as of and for the year ended June 30, 2012, and have issued our report thereon dated October 3, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of Bronx Academy of Promise Charter School is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Bronx Academy of Promise Charter 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 Bronx Academy of Promise Charter School's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness Bronx Academy of Promise Charter 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 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 over financial reporting 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 previously.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Bronx Academy of Promise Charter 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*.

We noted certain matters that we reported to management of Bronx Academy of Promise Charter School in a separate letter dated October 3, 2012.

This report is intended solely for the information and use of management, the Board of Trustees, others within the entity, and the New York City Department of Education and is not intended to be and should not be used by anyone other than these specified parties.

Loeb & Troper LLP

October 3, 2012

BRONX ACADEMY OF PROMISE CHARTER SCHOOL, INC.

MANAGEMENT LETTER

JUNE 30, 2012

LOEB & TROPER LLP

LOEB & TROPER LLP

Board of Trustees
Bronx Academy of Promise Charter School, Inc.

In planning and performing our audit of the financial statements of Bronx Academy of Promise Charter School, Inc. (BAOP) as of and for the year ended June 30, 2012 in accordance with auditing standards generally accepted in the United States of America, we considered BAOP'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 BAOP's internal control. Accordingly, we do not express an opinion on the effectiveness of BAOP'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 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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above. However, we wish to make the following observations and recommendations for consideration by management:

Payroll Taxes and Benefits

BAOP engages ADP Total Source to process payroll and all required state and IRS payroll tax, withholding and wage reports. ADP Total Source does not provide a detailed listing of the payroll taxes and benefits that are paid by BAOP; instead, these only provide a summary report. Therefore, BAOP does not have a detailed record of the various taxes and benefits that they paid. We recommend that BAOP request from ADP Total Source a report that details all taxes and benefits paid every pay period.

Rental Agreements

BAOP leases the current space from IN Claremon LLC based on a verbal agreement.

We recommend that a written rental agreement exist between BAOP and any organization that space is rented from. These agreements should stipulate all pertinent rental terms.

This communication is intended solely for the information and use of the Board of Trustees, management and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

Loeb & Troper LLP

October 3, 2012