

**BRONX ACADEMY OF
PROMISE CHARTER SCHOOL**

**FINANCIAL STATEMENTS
AND AUDITOR'S REPORTS**

JUNE 30, 2011

BRONX ACADEMY OF PROMISE CHARTER SCHOOL

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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 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, 2011, and the related statements of activities, functional expenses and cash flows for the year 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 audit. The prior year summarized comparative information has been derived from Bronx Academy of Promise Charter School's June 30, 2010 financial statements and, in our report dated November 1, 2010, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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 audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Bronx Academy of Promise Charter School as of June 30, 2011, and the changes in its net assets and its cash flows for the year 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 6, 2011 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 audit.

A handwritten signature in black ink that reads "Loeb & Troper LLP". The signature is written in a cursive, flowing style.

October 6, 2011

BRONX ACADEMY OF PROMISE CHARTER SCHOOL

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2011

(With Summarized Financial Information for June 30, 2010)

	<u>2011</u>	<u>2010</u>
ASSETS		
Current assets		
Cash	\$ 603,038	\$ 11,583
Cash held in escrow	70,000	30,000
Grants and contracts receivable	150,649	126,288
Prepaid expenses	<u>45,133</u>	<u>24,045</u>
Total current assets	868,820	191,916
Fixed assets - net (Note 3)	<u>230,818</u>	<u>112,734</u>
Total assets	<u>\$ 1,099,638</u>	<u>\$ 304,650</u>
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable and accrued expenses	\$ 96,550	\$ 383,552
Accrued salaries and related liabilities	132,613	49,809
Due to New York City Department of Education	<u>73,253</u>	<u></u>
Total current liabilities	302,416	433,361
Net assets (deficit) - unrestricted (Exhibit B)	<u>797,222</u>	<u>(128,711)</u>
Total liabilities and net assets	<u>\$ 1,099,638</u>	<u>\$ 304,650</u>

See independent auditor's report.

The accompanying notes are an integral part of these statements.

BRONX ACADEMY OF PROMISE CHARTER SCHOOL

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2011
 (With Summarized Financial Information
 for the Year Ended June 30, 2010)

	<u>2011</u>	<u>2010</u>
Revenues		
State and local per-pupil operating revenues	\$ 4,429,231	\$ 3,213,033
Government grants and contracts	351,638	487,998
Contributions	2,040	
Miscellaneous income	140	20,642
Total revenues	<u>4,783,049</u>	<u>3,721,673</u>
Expenses		
Program services		
Education	2,876,266	2,785,792
Special education	184,748	90,716
Total program services	<u>3,061,014</u>	<u>2,876,508</u>
Supporting services		
Management and general	781,912	989,903
Fund raising	14,190	5,465
Total supporting services	<u>796,102</u>	<u>995,368</u>
Total expenses (Exhibit C)	<u>3,857,116</u>	<u>3,871,876</u>
Change in unrestricted net assets (Exhibit D)	925,933	(150,203)
Net assets (deficit) - unrestricted - beginning of year	<u>(128,711)</u>	<u>21,492</u>
Net assets (deficit) - unrestricted - end of year (Exhibit A)	<u>\$ 797,222</u>	<u>\$ (128,711)</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

YEAR ENDED JUNE 30, 2011
 (With Summarized Financial Information
 for the Year Ended June 30, 2010)

	Program Services			Supporting Services Management and		Total
	Education	Special Education	Total	General	Fund Raising	
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	\$ 2,876,266	\$ 184,748	\$ 3,061,014	\$ 781,912	\$ 14,190	\$ 3,857,116
(Exhibit B)						\$ 3,871,876

See independent auditor's

The accompanying notes are an integral part of these statements.

BRONX ACADEMY OF PROMISE CHARTER SCHOOL

STATEMENT OF CASH FLOWS

YEARS ENDED JUNE 30, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
Cash flows from operating activities		
Change in net assets (Exhibit B)	\$ 925,933	\$ (150,203)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities		
Depreciation	72,062	51,151
Increase in assets		
Grants and contracts receivable	(24,361)	(116,255)
Prepaid expenses	(21,088)	(12,945)
Increase (decrease) in liabilities		
Accounts payable and accrued expenses	(287,002)	222,800
Accrued salaries and related liabilities	82,804	(166,440)
Due to New York City Department of Education	73,253	(32,566)
Net cash used by operating activities	<u>821,601</u>	<u>(204,458)</u>
Cash flows from investing activities		
Increase in cash held in escrow	(40,000)	(20,000)
Fixed asset acquisitions	<u>(190,146)</u>	<u>(37,708)</u>
Net cash used by investing activities	<u>(230,146)</u>	<u>(57,708)</u>
Net increase (decrease) in cash	591,455	(262,166)
Cash - beginning of year	<u>11,583</u>	<u>273,749</u>
Cash - end of year	<u>\$ 603,038</u>	<u>\$ 11,583</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, 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 2010, BAOP operated classes for 250 students in grades K-3. 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 and \$30,000 as of June 30, 2011 and 2010, respectively, 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, 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, 2011.

Fixed assets - Fixed assets are recorded at cost. Items with a cost of \$1,000 and an estimated useful life of more than one year are capitalized. Depreciation and amortization are provided on the straight-line basis over the estimated following useful lives of assets:

Furniture, fixtures and equipment	3 - 5 years
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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, 2011

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Functional allocation of expenses - Expenses that can be directly identified with the program or supporting service to which they relate are charged accordingly. Other expenses by function have been allocated among program and supporting service classifications using bases determined by management to be reasonable.

Reclassification - Certain 2010 amounts have been reclassified to conform to the 2011 presentation. Cash held in escrow was reclassified to a separate line on the statement of financial position.

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, 2008 and subsequent remain subject to examination by applicable taxing authorities.

Subsequent events - Subsequent events have been evaluated through October 6, 2011, which is the date the financial statements were available to be issued.

NOTE 3 - FIXED ASSETS

Furniture, fixtures and equipment	\$ 239,208
Leasehold improvements	<u>151,715</u>
	390,923
Accumulated depreciation	<u>(160,105)</u>
	<u>\$ 230,818</u>

NOTE 4 - LEASE COMMITMENT

BAOP has a verbal month-to-month rental agreement with Claremon LLC. The total rent expense for the year ended June 30, 2011 was \$518,000.

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BRONX ACADEMY OF PROMISE CHARTER SCHOOL**NOTES TO FINANCIAL STATEMENTS****JUNE 30, 2011****NOTE 5 - PENSIONS**

The School 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. The School contribution does not become vested until its first year when it becomes fully vested. For the fiscal year ended June 30, 2011, pension expense for the School was \$29,347.

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.



**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, 2011, and have issued our report thereon dated October 6, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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 above.

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 6, 2011.

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.



October 6, 2011

**BRONX ACADEMY OF PROMISE
CHARTER SCHOOL, INC.**

MANAGEMENT LETTER

JUNE 30, 2011



**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 as of and for the year ended June 30, 2011 in accordance with auditing standards generally accepted in the United States of America, we considered Bronx Academy of Promise Charter School'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 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 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:

Cash Disbursements

During the course of the audit, we noted that Bronx Academy of Promise Charter School does not have a policy of canceling invoices and supporting documentation at the time that the invoices are being paid. Thus, the invoices are susceptible to unintentional duplicate payment or intentional misuse for dishonest purposes. A simple control against those dangers is to mark the invoices "Paid". A stamp may be used which should provide for notation of the check number and date and initials of the persons who checked the invoice detail. These procedures will help prevent unauthorized payment of invoices or invoices from being paid twice.

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.

Segregation of Responsibilities

The current staff size of BAOP does not always allow for the proper separation of duties to ensure adequate internal control. This is not unusual in an organization the size of BAOP, but management should be aware of this condition and realize that the concentration of duties and responsibilities in a limited number of individuals is not desirable from a control point of view. Under these conditions, the most effective controls lie in management's knowledge of matters relating to the operation of the accounting department.

This report 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.

Joel Troper LLP

October 6, 2011