

**BRONX ACADEMY OF
PROMISE CHARTER SCHOOL**

**FINANCIAL STATEMENTS
AND AUDITOR'S REPORTS**

JUNE 30, 2009

BRONX ACADEMY OF PROMISE CHARTER SCHOOL

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Independent Auditor's Report on Financial Statements

Board of Trustees Bronx Academy of Promise Charter School

We have audited the accompanying balance sheet of Bronx Academy of Promise Charter School as of June 30, 2009, 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.

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, 2009 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 November 25, 2009 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.

Loeb & Troper LLP

November 25, 2009

BRONX ACADEMY OF PROMISE CHARTER SCHOOL

BALANCE SHEET

JUNE 30, 2009

ASSETS

| | |
|---------------------------------|--------------------------|
| Current assets | |
| Cash | \$ 283,749 |
| Grants and contracts receivable | 10,033 |
| Prepaid expenses | <u>11,100</u> |
| Total current assets | 304,882 |
| Fixed assets - net (Note 3) | <u>126,177</u> |
| Total assets | <u><u>\$ 431,059</u></u> |

LIABILITIES AND NET ASSETS

| | |
|--|--------------------------|
| Current liabilities | |
| Accounts payable and accrued expenses | \$ 160,752 |
| Accrued salaries and related liabilities | 216,249 |
| Due to New York City Department of Education | <u>32,566</u> |
| Total current liabilities | 409,567 |
| Net assets - unrestricted (Exhibit B) | <u>21,492</u> |
| Total liabilities and net assets | <u><u>\$ 431,059</u></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, 2009

| | |
|---|--------------|
| Revenues | |
| State and local per-pupil operating revenues | \$ 2,365,603 |
| Government grants and contracts | 157,441 |
| Contributions | 6,224 |
| Sales and other revenues | 11,805 |
| | <hr/> |
| Total revenues | 2,541,073 |
| <hr/> | |
| Expenses | |
| Program services | |
| Education | 1,607,284 |
| Supporting services | |
| Management and general | 912,297 |
| | <hr/> |
| Total expenses (Exhibit C) | 2,519,581 |
| <hr/> | |
| Change in unrestricted net assets (Exhibit D) | 21,492 |
| Net assets - unrestricted - beginning of year | - |
| | <hr/> |
| Net assets - unrestricted - end of year (Exhibit A) | \$ 21,492 |
| | <hr/> <hr/> |

See independent auditor's report.

The accompanying notes are an integral part of these statements.

BRONX ACADEMY OF PROMISE CHARTER SCHOOL

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2009

| | <u>Program Services</u> | <u>Supporting Services</u> | |
|-------------------------------------|-----------------------------|---------------------------------------|---------------------|
| | <u>Education</u> | <u>Management and General</u> | <u>Total</u> |
| Salaries | \$ 777,087 | \$ 271,702 | \$ 1,048,789 |
| Payroll taxes and employee benefits | 166,270 | 31,725 | 197,995 |
| Occupancy (Note 4) | 426,329 | 87,321 | 513,650 |
| Contracted services | | 20,905 | 20,905 |
| Supplies and equipment | 105,884 | 27,829 | 133,713 |
| Repairs and maintenance | 35,506 | 7,272 | 42,778 |
| Printing and postage | | 2,478 | 2,478 |
| Professional fees | | 36,046 | 36,046 |
| Dues and subscription | | 4,534 | 4,534 |
| Insurance | 600 | 11,386 | 11,986 |
| Telephone | 1,090 | 9,565 | 10,655 |
| Travel | 4,294 | | 4,294 |
| Professional development | 37,392 | 8,627 | 46,019 |
| Management fees | | 358,388 | 358,388 |
| Computer expense | 1,393 | 12,538 | 13,931 |
| Payroll processing fees | 6,472 | | 6,472 |
| Depreciation | 33,203 | 3,689 | 36,892 |
| Miscellaneous expenses | 11,764 | 18,292 | 30,056 |
| | <u>1,607,284</u> | <u>912,297</u> | <u>2,519,581</u> |
| Total expenses (Exhibit B) | \$ <u>1,607,284</u> | \$ <u>912,297</u> | \$ <u>2,519,581</u> |

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

YEAR ENDED JUNE 30, 2009

| | |
|---|-------------------|
| Cash flows from operating activities | |
| Change in net assets (Exhibit B) | \$ 21,492 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities | |
| Depreciation | 36,892 |
| Increase in assets | |
| Grants and contracts receivable | (10,033) |
| Prepaid expenses | (11,100) |
| Increase in liabilities | |
| Accounts payable and accrued expenses | 160,752 |
| Accrued salaries and related liabilities | 216,249 |
| Due to New York City Department of Education | <u>32,566</u> |
| Net cash provided by operating activities | 446,818 |
| Cash flows from investing activities | |
| Fixed asset acquisitions | <u>(163,069)</u> |
| Net increase in cash | 283,749 |
| Cash - beginning of year | <u>-</u> |
| Cash - end of year | <u>\$ 283,749</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, 2009

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 2009, BAOP operated classes for approximately 180 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.

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.

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.

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.

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BRONX ACADEMY OF PROMISE CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

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.

Functional allocation of expenses - Expenses are allocated among the program and supporting services based on the nature of the expense.

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 |
|-----------------------------------|-------------|

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.

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.

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BRONX ACADEMY OF PROMISE CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)***Fair Value Measurements on a Nonrecurring Basis***

SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities - Including an Amendment of SFAS No. 115* (SFAS No. 159), permits but does not require measurement of financial instruments and certain other items at fair value. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings. As BAOP did not elect to fair value any of the financial instruments under the provisions of SFAS No. 159, the adoption of this statement effective July 1, 2008 did not have an impact on the financial statements.

As permitted by FSP 157-2, the fair value measurement disclosure was deferred for any (a) long-lived assets and finite-lived intangible assets in the determination of impairment under SFAS No. 142 or SFAS No. 144, (b) asset retirement obligations initially measured at fair value under SFAS No. 143, *Accounting for Asset Retirement Obligations*, and (c) nonfinancial liabilities for exit or disposal activities initially measured at fair value under SFAS No. 146, *Accounting for Costs Associated with Exit or Disposal Activities*.

Financial Accounting Standards Board (FASB) Interpretation No. 48 - Accounting for Uncertainty in Income Taxes - an Interpretation of FASB Statement No. 109 (FIN 48)

In July 2006, the FASB issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes - an Interpretation of FASB Statement No. 109* (FIN 48). FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. FIN 48 is effective for nonpublic companies and not-for-profits for periods beginning after December 15, 2008.

As FIN 48 has not been adopted, BAOP is continuing to use FASB Statement No. 5, *Accounting for Contingencies* (FAS 5) to evaluate uncertain tax positions. BAOP is currently evaluating the impact on the financial statements of adopting FIN 48.

Subsequent events - Subsequent events have been evaluated through November 25, 2009, which is the date the financial statements were available to be released.

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BRONX ACADEMY OF PROMISE CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

NOTE 4 - LEASE COMMITMENT

BAOP entered into a one year lease of a school building which expired on October 31, 2009. BAOP verbally extended the lease for an additional year ending October 31, 2010. The future minimum lease payments as of June 30, 2009 are:

| | |
|------|-------------------|
| 2010 | \$ 466,670 |
| 2011 | <u>155,557</u> |
| | <u>\$ 622,227</u> |

Rent expense for the year ended June 30, 2009 is 466,670.

NOTE 5 - PENSIONS

BAOP had a defined contribution retirement plan which covered substantially all full-time employees. BAOP contributed an amount equal to 5% of the employees' contribution to the plan up to the legal maximum amount allowed. Pension expense under this plan was \$25,164.

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 major 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, 2009, and have issued our report thereon dated November 25, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects an entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies in internal control over financial reporting (09-01).

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be 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 November 25, 2009.

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



November 25, 2009

BRONX ACADEMY OF PROMISE CHARTER SCHOOL
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2009

Section I - Summary of Auditor's Results

Financial Statements

| | | |
|---|---------------------|----------------------|
| Type of auditor's report issued: | <u>Unqualified</u> | |
| Internal control over financial reporting: | | |
| Material weakness(es) identified? | <u> </u> yes | <u> X </u> no |
| Significant deficiency(ies) identified not considered to be material weaknesses? | <u> X </u> yes | <u> </u> none |
| Noncompliance material to financial statements noted? | <u> </u> yes | <u> X </u> no |

Section II - Financial Statement Findings

09-01 Recordkeeping

During the year, BAOP terminated its relationship with the management company. The management company managed and retained various records on behalf of BAOP and those records were kept off site. BAOP is still finalizing the termination agreement with the management company and has not been able to obtain the following documents:

- General insurance documents
- Quarterly 941s
- Copies of payroll checks
- Pension documents

We recommend that original documents of this nature be kept on site, while copies may be stored off site, where needed, for board purposes or other related needs.



CORRECTIVE ACTION PLAN

09-01 Recordkeeping

BAOP terminated its relationship with the management company. All documents are currently retained by BAOP.