

Bronx Academy of Promise Charter School

Independent Auditor's Reports and Financial Statements

June 30, 2018 and 2017

Bronx Academy of Promise Charter School

June 30, 2018 and 2017

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Independent Auditor's Report

Board of Trustees
Bronx Academy of Promise Charter School
Bronx, New York

We have audited the accompanying financial statements of Bronx Academy of Promise Charter School which comprise the statement of financial position as of June 30, 2018, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Bronx Academy of Promise Charter School as of June 30, 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of functional expenses listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Prior Year Audited by Other Auditors and Summarized Comparative Information

The 2017 financial statements were audited by other auditors, and their report thereon, dated October 27, 2017, expressed an unmodified opinion. The summarized comparative information presented on the supplementary information for the year ended June 30, 2017 is consistent with the audited financial statements from which it has been derived.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 30, 2018, 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 solely 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 effectiveness of Bronx Academy of Promise Charter School's 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.

BKD, LLP

New York, New York
October 30, 2018

Bronx Academy of Promise Charter School
Statements of Financial Position
June 30, 2018 and 2017

	2018	2017
Assets		
Current Assets		
Cash	\$ 9,081,204	\$ 8,184,728
Cash held in escrow	70,000	70,000
Grants and contracts receivable	443,129	365,740
Prepaid expenses	217,201	184,977
Total current assets	9,811,534	8,805,445
Fixed Assets, net	160,743	226,571
Security Deposits	690,815	690,815
Total assets	\$ 10,663,092	\$ 9,722,831
 Liabilities and Net Assets		
Current Liabilities		
Accounts payable and accrued expenses	\$ 243,942	\$ 188,351
Accrued salaries and related liabilities	641,709	402,363
Deferred revenue	20,698	31,645
Total current liabilities	906,349	622,359
Deferred Rent	1,817,026	1,605,028
Total liabilities	2,723,375	2,227,387
Net Assets, Unrestricted	7,939,717	7,495,444
Total liabilities and net assets	\$ 10,663,092	\$ 9,722,831

Bronx Academy of Promise Charter School

Statements of Activities

Years Ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Revenues		
Resident student enrollment	\$ 8,843,418	\$ 8,855,883
Students with disabilities	702,949	743,932
Government grants and contracts	1,069,477	948,552
Contributions	31,537	23,435
Miscellaneous income	7,092	559
Total revenues	<u>10,654,473</u>	<u>10,572,361</u>
Expenses		
Program Services		
Education	6,170,124	7,163,126
Special education	2,275,455	633,854
Total program services	<u>8,445,579</u>	<u>7,796,980</u>
Supporting Services		
Management and general	1,747,237	1,677,621
Fund raising	17,384	44,606
Total supporting services	<u>1,764,621</u>	<u>1,722,227</u>
Total expenses	<u>10,210,200</u>	<u>9,519,207</u>
Change in Unrestricted Net Assets	444,273	1,053,154
Net Assets – Unrestricted, Beginning of Year	<u>7,495,444</u>	<u>6,442,290</u>
Net Assets – Unrestricted, End of Year	<u>\$ 7,939,717</u>	<u>\$ 7,495,444</u>

Bronx Academy of Promise Charter School

Statements of Cash Flows

Years Ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Operating Activities		
Change in net assets	\$ 444,273	\$ 1,053,154
Items not requiring (providing) operating cash flows		
Depreciation and amortization	166,876	183,514
Change in		
Grants and contracts receivable	(77,389)	(131,909)
Prepaid expenses	(32,224)	86,446
Accounts payable and accrued expenses	55,591	73,986
Accrued salaries and related liabilities	239,346	(228,112)
Deferred revenue	(10,947)	31,645
Deferred rent	211,998	334,549
Net cash provided by operating activities	<u>997,524</u>	<u>1,403,273</u>
Investing Activities		
Fixed asset purchases	(101,048)	(111,145)
Net cash used by investing activities	<u>(101,048)</u>	<u>(111,145)</u>
Net Increase in Cash	896,476	1,292,128
Cash, Beginning of Year	<u>8,184,728</u>	<u>6,892,600</u>
Cash, End of Year	<u>\$ 9,081,204</u>	<u>\$ 8,184,728</u>

Bronx Academy of Promise Charter School

Notes to Financial Statements

June 30, 2018 and 2017

Note 1: Nature of Organization

Bronx Academy of Promise Charter School (the School) is an educational corporation that operates as a charter school in the borough of Bronx, New York City. The School received a charter from 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 effective through June 30, 2023. The charter is for a period of five years and is renewable upon expiration.

The School 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 years 2018 and 2017, the School operated classes for 595 and 610 students in grades K-8, respectively.

The School is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. However, the School is subject to federal income tax on any unrelated business taxable income. The School is supported primarily by state and local per-pupil operating revenues and government grants and contracts.

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

The School established an escrow account of \$70,000 as of June 30, 2018 and 2017, 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 and are stated at amount billed. Receivables are presented net of allowances for doubtful accounts. Receivables are ordinarily due upon issuance of the invoice. Receivables past due more than 30 days are considered delinquent. The allowances are based on management's evaluation of the collectibility of the related accounts. Interest is not accrued or recorded on outstanding receivables.

Bronx Academy of Promise Charter School

Notes to Financial Statements

June 30, 2018 and 2017

Allowance for Doubtful Accounts

The School determines whether an allowance for doubtful accounts 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. The School has determined that no allowance for uncollectible accounts for grant and contracts receivable is necessary as of June 30, 2018 and 2017.

Fixed Assets

Fixed assets are stated at cost less accumulated depreciation. Items with a cost of \$3,000 or more and an estimated useful life of more than one year are capitalized. Furniture, fixtures and equipment are depreciated on the straight-line method over their estimated useful lives. Leasehold improvements are amortized over the shorter of the life of the lease or its useful life.

Long-Lived Asset Impairment

The School evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the asset is less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value. No asset impairment was recognized during the years ended June 30, 2018 and 2017.

Deferred Revenue

Deferred revenue is recorded when payments received by the New York City Department of Education 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 the School'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 the School when expenditures are incurred and billed.

Government Grants and Contracts

Revenues from government grants and contracts to which the School 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 the School.

Bronx Academy of Promise Charter School

Notes to Financial Statements

June 30, 2018 and 2017

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 statements 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 services have been summarized on a functional basis. Accordingly, certain costs have been allocated among the programs and supporting services benefited based on the actual expenditures and cost allocations estimated by the School's personnel.

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 incurred.

Subsequent Events

Subsequent events have been evaluated through October 30, 2018, which is the date the financial statements were available to be issued.

Note 3: Fixed Assets

	<u>2018</u>	<u>2017</u>	<u>Estimated Useful Lives</u>
Furniture, fixtures and equipment	\$ 833,065	\$ 732,017	3-5 years
Leasehold improvements	<u>282,739</u>	<u>282,739</u>	10-15 years
	1,115,804	1,014,756	
Accumulated depreciation	<u>(955,061)</u>	<u>(788,185)</u>	
	<u>\$ 160,743</u>	<u>\$ 226,571</u>	

Bronx Academy of Promise Charter School

Notes to Financial Statements

June 30, 2018 and 2017

Note 4: Lease Commitment

The School entered into a lease of a school building located at 1349 Inwood Avenue, Bronx, NY that will expire on July 31, 2028. Included in the agreement was a requirement for the landlord to build out a space adjacent to the school building. Since it was not completed, the School received a rent reduction of \$163,770 and \$158,978 in 2018 and 2017, respectively. Rent expense is recognized on a straight-line basis and was \$1,537,034 and \$1,618,378 for the years ended June 30, 2018 and 2017, respectively. A security deposit of \$500,000 was paid for the facility at 1349 Inwood Avenue, and an additional security deposit of \$150,000 was paid for the space adjacent to the School building.

The future minimum lease payments as of June 30, 2018 are:

2019	\$	1,533,469
2020		1,579,473
2021		1,626,854
2022		1,675,659
2023		1,725,925
Thereafter		<u>9,605,241</u>
	\$	<u>17,746,621</u>

The Financial Accounting Standards Board amended its standard related to the accounting for leases. Under the new standard, lessees will now be required to recognize substantially all leases on the statement of financial position as both a right-of-use asset and a liability. The standard has two types of leases for statement of activities recognition purposes: operating leases and finance leases. Operating leases will result in the recognition of a single lease expense on a straight-line basis over the lease term similar to the treatment for operating leases under existing standards. Finance leases will result in an accelerated expense similar to the accounting for capital leases under existing standards. The determination of lease classification as operating or finance will be done in a manner similar to existing standards. The new standard also contains amended guidance regarding the identification of embedded leases in service contracts and the identification of lease and nonlease components in an arrangement. The new standard is effective for annual periods beginning after December 15, 2019, and any interim periods within annual reporting periods that begin after December 15, 2020. The School is evaluating the impact the standard will have on the financial statements; however, the standard is expected to have a material impact on the financial statements due to the recognition of additional assets and liabilities for operating leases.

Note 5: Pensions

The School adopted a 403(b) profit sharing plan (the Plan) which covers most of its employees. Employees are eligible to enroll in the Plan on the first day of the plan year and employees who have completed at least 1 full year of service are also eligible for employer contribution. The Plan provided for the School to contribute 6% of an eligible employee's salary. For the years ended June 30, 2018 and 2017, pension expense was 132,370 and 118,414, respectively.

Bronx Academy of Promise Charter School

Notes to Financial Statements

June 30, 2018 and 2017

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 the School to a concentration of credit risk are cash accounts with financial institutions in excess of FDIC insurance limits. At June 30, 2018, the School's cash accounts exceeded federally insured limits by approximately \$8.6 million. Management believes that the credit risk related to these accounts is minimal.

A significant portion of the School's operating revenue is paid by New York State Department of Education. In addition, all grants and contracts receivable due at year-end were all due from the New York State Department of Education.

Supplementary Information

Bronx Academy of Promise Charter School
Schedule of Functional Expenses
Year Ended June 30, 2018
(With Summarized Financial Information for the Year Ended June 30, 2017)

	No. of Positions	2018						2017
		Program Services			Supporting Services			
		Education	Special Education	Total	Management and General	Fund Raising	Total	
Salaries								
Administrative	10	\$ 212,535	\$ 65,191	\$ 277,726	\$ 566,530	\$ 9,598	\$ 853,854	\$ 889,877
Instructional	65	2,681,759	1,116,016	3,797,775	-	-	3,797,775	3,250,993
Noninstructional	11	134,839	27,063	161,902	265,587	-	427,489	313,283
Total salaries		<u>3,029,133</u>	<u>1,208,270</u>	<u>4,237,403</u>	<u>832,117</u>	<u>9,598</u>	<u>5,079,118</u>	<u>4,454,153</u>
Payroll taxes and employee benefits		774,663	309,000	1,083,663	212,803	2,455	1,298,921	1,155,393
Occupancy		948,452	378,322	1,326,774	260,543	3,005	1,590,322	1,726,805
Supplies and equipment		158,800	31,871	190,671	-	-	190,671	157,677
Repairs and maintenance		176,454	70,384	246,838	48,473	559	295,870	164,435
Professional fees		536,329	118,360	654,689	244,468	940	900,097	979,260
Insurance		35,791	14,276	50,067	9,832	113	60,012	56,139
Food service fees		257,838	51,749	309,587	-	-	309,587	327,972
Staff development		16,269	3,265	19,534	20,066	-	39,600	28,330
Technology services		18,741	7,475	26,216	5,149	59	31,424	33,532
Office expenses		107,262	42,785	150,047	77,929	340	228,316	135,861
Marketing/recruitment		10,870	-	10,870	-	-	10,870	42,039
Depreciation and amortization		99,522	39,698	139,220	27,341	315	166,876	183,514
Miscellaneous expenses		-	-	-	8,516	-	8,516	74,097
Total expenses		<u>\$ 6,170,124</u>	<u>\$ 2,275,455</u>	<u>\$ 8,445,579</u>	<u>\$ 1,747,237</u>	<u>\$ 17,384</u>	<u>\$ 10,210,200</u>	<u>\$ 9,519,207</u>

**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
Bronx, New York

We have audited, 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, the financial statements of Bronx Academy of Promise Charter School, which comprise the statement of financial position as of June 30, 2018, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 30, 2018.

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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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.

BKD, LLP

New York, New York
October 30, 2018