

Bronx Preparatory Charter School

Financial Report and Reports
Required by OMB Circular A-133
June 30, 2015

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Independent Auditor's Report

To the Board of Trustees
Bronx Preparatory Charter School
Bronx, New York

Report on the Financial Statements

We have audited the accompanying financial statements of Bronx Preparatory Charter School (the School), which comprise the statement of financial position as of June 30, 2015, and the related statements of activities, functional expenses, 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 the School as of June 30, 2015, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the School's 2014 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 30, 2014. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2014 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matters

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The information is for purposes of additional analysis rather than to present the financial position and changes in net assets of the individual entities. The schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* is presented for purposes of additional analysis. The information and the schedule of expenditures of federal awards are not required parts 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 30, 2015 on our consideration of the School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control over financial reporting and compliance.

RSM US LLP

New York, New York
October 30, 2015

Bronx Preparatory Charter School

Statement of Financial Position

June 30, 2015

(with summarized comparative information as of June 30, 2014)

	2015	2014
Assets		
Cash and Cash Equivalents	\$ 347,416	\$ 1,667,567
Investments	777,372	968,381
Contributions and Other Receivables, Net	794,099	124,519
Other Assets	86,174	27,000
Property and Equipment, Net	14,523,596	15,633,415
Total assets	\$ 16,528,657	\$ 18,420,882
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	\$ 675,676	\$ 391,993
Capital lease obligation	73,477	-
Refundable advance	-	23,912
Total liabilities	749,153	415,905
Contingencies and Commitments		
Net Assets		
Unrestricted	2,430,384	17,994,977
Temporarily restricted	13,349,120	10,000
Total net assets	15,779,504	18,004,977
Total liabilities and net assets	\$ 16,528,657	\$ 18,420,882

See Notes to Financial Statements.

Bronx Preparatory Charter School

Statement of Activities

Year Ended June 30, 2015

(with summarized comparative information for the year ended June 30, 2014)

	2015			2014
	Unrestricted	Temporarily Restricted	Total	Summarized Comparative Information Total
Operating Revenue				
State and local per pupil operating revenue	\$ 11,036,298	\$ -	\$ 11,036,298	\$ 9,468,264
Government grants and contracts	663,244	-	663,244	805,612
Net assets released from restrictions - amortization of interest in Friends' building	458,957	-	458,957	-
Total operating revenue	12,158,499	-	12,158,499	10,273,876
Expenses				
Program services:				
Regular Education	10,150,393	-	10,150,393	10,304,943
Special Education	731,060	-	731,060	689,640
Other - Enrichment programs	390,883	-	390,883	549,930
General and administrative	1,209,838	-	1,209,838	599,857
Total operating expenses	12,482,174	-	12,482,174	12,144,370
Deficit on school operations from government funding	(323,675)	-	(323,675)	(1,870,494)
Support and Other Revenue (Expense)				
Contributions:				
Foundations	-	200,000	200,000	44,500
Individuals	3,000	-	3,000	47,235
Corporations	-	-	-	750
Donated services and in-kind contributions	112,050	-	112,050	55,640
Benefit event	14,955	-	14,955	500
Interest and investment income	1,551	-	1,551	25,720
Miscellaneous and other income	20,814	-	20,814	9,175
Fundraising expenses	-	-	-	(176,452)
Loss on uncollectible accounts	(2,253)	-	(2,253)	(11,139)
Total support and other (expense) revenue	150,117	200,000	350,117	(4,071)
Result of operations	(173,558)	200,000	26,442	(1,874,565)
Net Assets Transferred to Friends Resulting From the Separation of Friends From the School	(1,782,958)	(10,000)	(1,792,958)	-
Reclassification of Net Assets Pertaining to Interest in Friends' Building	(13,608,077)	13,608,077	-	-
Net Assets Released From Restrictions - Amortization of Interest in Friends' Building	-	(458,957)	(458,957)	-
Change in net assets	(15,564,593)	13,339,120	(2,225,473)	(1,874,565)
Net Assets				
Beginning	17,994,977	10,000	18,004,977	19,879,542
Ending	\$ 2,430,384	\$ 13,349,120	\$ 15,779,504	\$ 18,004,977

See Notes to Financial Statements.

Bronx Preparatory Charter School

Statement of Functional Expenses

Year Ended June 30, 2015

(with summarized comparative information for the year ended June 30, 2014)

	2015						2014	
	Program Services			Supporting Services			Summarized Comparative Information Total	
	Regular Education	Special Education	Other - Enrichment Programs	Total Program Expenses	General and Administrative	Fundraising		Total
Salaries - educators	\$ 4,909,719	\$ 358,511	\$ 185,438	\$ 5,453,668	\$ -	\$ -	\$ 5,453,668	\$ 6,168,485
Salaries - administrators	-	-	-	-	362,800	-	362,800	650,035
Salaries - facilities	-	-	-	-	241,780	-	241,780	329,118
Payroll taxes and employee benefits	1,084,269	79,174	40,952	1,204,395	133,516	-	1,337,911	1,382,087
Total personnel expenses	5,993,988	437,685	226,390	6,658,063	738,096	-	7,396,159	8,529,725
Staff recruitment and professional development	97,789	7,244	3,622	108,655	12,073	-	120,728	292,104
Student meals program	318,206	23,951	51,370	393,527	-	-	393,527	257,263
Classroom books and supplies	234,238	17,631	-	251,869	-	-	251,869	710,892
Office expenses	85,339	6,322	3,160	94,821	10,534	-	105,355	47,510
Student events	29,116	2,265	971	32,352	-	-	32,352	143,825
Audit/bank fees/payroll/legal	329,049	24,767	-	353,816	102,467	-	456,283	210,353
Insurance	77,230	5,721	2,860	85,811	9,535	-	95,346	87,946
Utilities	163,523	12,113	6,056	181,692	20,188	-	201,880	219,541
Equipment and furnishings	17,646	1,307	654	19,607	2,179	-	21,786	19,949
Facility maintenance and security	362,332	26,839	13,420	402,591	44,732	-	447,323	420,491
Information technology	150,816	11,172	5,586	167,574	18,619	-	186,193	237,555
Fundraising	-	-	-	-	-	-	-	3,975
Donated services/in-kind donations	53,411	3,956	1,978	59,345	6,594	-	65,939	55,640
Enrichment fees/curriculum materials	41,078	3,195	1,369	45,642	-	-	45,642	47,166
Student field lessons	39,644	-	-	39,644	-	-	39,644	52,518
College preparation program	173,933	-	-	173,933	-	-	173,933	208,762
Management fee	1,388,909	102,882	51,441	1,543,232	171,470	-	1,714,702	-
Interest on capital lease	3,933	291	146	4,370	485	-	4,855	-
Depreciation	168,861	12,508	6,254	187,623	20,847	-	208,470	775,607
Building rental	49,597	3,674	1,837	55,108	6,123	-	61,231	-
Total expenses before amortization of interest in Friends' building	9,778,638	703,523	377,114	10,859,275	1,163,942	-	12,023,217	12,320,822
Amortization of Interest in Friends' Building	371,755	27,537	13,769	413,061	45,896	-	458,957	-
Total expenses - 2015	\$ 10,150,393	\$ 731,060	\$ 390,883	\$ 11,272,336	\$ 1,209,838	\$ -	\$ 12,482,174	
Total expenses - 2014	\$ 10,304,943	\$ 689,640	\$ 549,930	\$ 11,544,513	\$ 599,857	\$ 176,452		\$ 12,320,822

See Notes to Financial Statements.

Bronx Preparatory Charter School

Consolidated Statement of Cash Flows

Year Ended June 30, 2015

(with summarized comparative information for the year ended June 30, 2014)

	2015	2014
Cash Flows From Operating Activities		
Change in net assets	\$ (2,225,473)	\$ (1,874,565)
Adjustment to reconcile change in net assets to net cash used in operating activities:		
Net assets transferred to Friends	1,792,958	-
Amortization of interest in Friends' building	458,957	-
Depreciation	208,470	775,607
Net realized and unrealized gain on investments	-	(15,069)
Loss on uncollectible accounts	2,253	11,139
Changes in operating assets and liabilities:		
(Increase) decrease in contributions and other receivables	(681,833)	67,194
(Increase) decrease in other assets	(67,299)	78,688
Increase in accounts payable and accrued expenses	289,072	179,653
(Decrease) increase in refundable advance	(23,912)	23,912
Net cash used in operating activities	(246,807)	(753,441)
Cash Flows From Investing Activities		
Transfer of cash to Friends	(839,062)	-
Purchases of investments	(77)	(899)
Purchases of property and equipment	(204,623)	(95,652)
Net cash used in investing activities	(1,043,762)	(96,551)
Cash Flows From Financing Activities		
Principal payments on capital lease obligations	(29,582)	-
Net cash used in financing activities	(29,582)	-
Net change in cash and cash equivalents	(1,320,151)	(849,992)
Cash and Cash Equivalents		
Beginning	1,667,567	2,517,559
Ending	\$ 347,416	\$ 1,667,567
Supplemental Disclosure of Cash Flow Information		
Interest paid	\$ 4,855	\$ -
Supplemental Disclosures of Noncash Investing and Financing Activities		
Computer equipment purchased under capital lease obligation	\$ 103,059	\$ -

See Notes to Financial Statements.

Bronx Preparatory Charter School

Notes to Financial Statements

Note 1. Organization, Principal Business Activity and Summary of Significant Accounting Policies

Organization and principal business activity: Bronx Preparatory Charter School (the School) is an educational corporation that operates a charter school in the borough and county of the Bronx, New York. The School was granted a provisional charter on April 4, 2000 valid for a term of five years and renewable upon expiration. The charter was renewed in 2005, 2010, and 2015 for full five-year terms. The current charter will expire on June 30, 2020.

The School was established to prepare underserved middle school and high school students for higher education, community involvement and lifelong success through a structured, caring environment of high academic expectations. In fiscal year 2015, the School operated classes for students in grades 5 through 12.

Friends of Bronx Preparatory Charter School, Inc. (Friends) was organized under the laws of the State of New York on June 29, 1999 as a not-for-profit corporation under subparagraph (a)(5) of Section 102 of the Not-For-Profit Corporation Law. Friends was established to create a plan for a charter school in New York City, drafting an application for such a charter and making contributions to such a school and other tax-exempt organizations. The by-laws of Friends was amended, restated, and approved by the board of directors. Under the amended by-laws, Friends ceased to be controlled by the School effective July 1, 2014. Upon the School and Friends' separation, a consolidation is no longer required and Friends' net assets except for the School's interest in Friends' building were transferred out from the School's financial statements. As of July 1, 2014 \$1,792,958 of net assets was transferred to Friends from the separation of Friends from the School which is included in the Statement of Activities.

Basis of accounting and financial statement presentation: The financial statements of the School have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. Accordingly, net assets are classified as unrestricted, temporarily restricted or permanently restricted based on the designation of donors. At June 30, 2015 and 2014, the Organization had no permanently restricted net assets.

Revenue recognition: Revenue from the state and local government resulting from the School's charter status and based on the number of students enrolled is recorded when services are performed in accordance with the charter agreement.

Revenue from federal, state, and local grants and contracts is recognized when qualifying expenditures are incurred. Any cash received in excess of expenditures incurred is recognized as refundable advances.

Contributions are recognized as revenue in the year the pledge is received and documented. Contributions and unconditional promises to give are considered to be available for unrestricted use unless specifically restricted by the donor.

Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted support, which increases that net asset class. When the specified purpose or time restriction of donor-restricted contributions is met, the net asset is released from restriction and transferred to unrestricted net assets. Contributions of assets other than cash are recorded at their estimated fair value.

Contributed services are reported as contributions at their fair value if such services create or enhance nonfinancial assets or would have been purchased if not provided by donation, require specialized skills and are provided by individuals possessing such specialized skills.

Bronx Preparatory Charter School

Notes to Financial Statements

Note 1. School, Principal Business Activity and Summary of Significant Accounting Policies (Continued)

A number of volunteers have made a contribution of their time to the School to develop its academic and other programs and to serve on both boards of directors. The value of this contributed time is not reflected in these financial statements inasmuch as such services either do not require specialized skills or would not typically be purchased had they not been provided by donation.

The School provides a venue for The Children's Aid Society, an unrelated not-for-profit organization, to provide the Carrera Adolescent Pregnancy Prevention Program directly to its students. The value of this program service, estimated to be \$1,092,000 for 2015 and \$1,412,000 for 2014, is not recognized in these financial statements.

The New York City Department of Education provides transportation directly to a majority of the School's students. The federal and state government provided funding for students' free and reduced-cost breakfast, lunches and snacks. The School covered the cost of lunches for children not entitled to the free lunches. Food service revenue and expense were included in these financial statements. Effective March 2015, the School participates in the New York City Department of Education Food Service Program (NYC DOE Food Service Program). Under this program, NYC DOE provides food directly to a majority of the School's students.

Functional expenses: The School's program services consist of both the academic program and enrichment programs. The academic program includes costs incurred directly in connection with the School providing a rigorous extended-year college preparatory middle school and high school education. Enrichment programs include costs incurred to run the School's enrichment and college preparatory programs.

Certain costs and expenses are allocated between program and supporting services.

Cash equivalents: The School considers all highly liquid financial instruments purchased with a maturity of three months or less to be cash equivalents. The School maintains cash and cash equivalents in bank deposits and money market accounts with two financial institutions. At times, balances on these accounts may exceed federally insured limits. The School has not experienced any losses in such accounts.

Receivables: Receivables are reported at their outstanding unpaid balances, less an allowance for doubtful accounts. Management evaluates the collectability of these receivables on a case-by-case basis considering the School's experience with the donor or funding source and their ability to pay, and writes off receivables that are deemed to be uncollectible.

Investments: Investments are stated at fair value.

Fair value measurements: Assets and liabilities reported at fair value are categorized based upon the level of judgment associated with the inputs used to measure their fair value. Level inputs are defined as follows:

- Level 1 Quoted prices for identical assets and liabilities traded in active exchange markets, such as the New York Stock Exchange.
- Level 2 Observable inputs other than Level 1 including quoted prices for similar assets or liabilities, quoted prices in less active markets, or other observable inputs that can be corroborated by observable market data. Level 2 also includes derivative contracts whose value is determined using a pricing model with observable market inputs or can be derived principally from or corroborated by observable market data.

Bronx Preparatory Charter School

Notes to Financial Statements

Note 1. School, Principal Business Activity and Summary of Significant Accounting Policies (Continued)

Level 3 Unobservable inputs supported by little or no market activity for financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation; also includes observable inputs for nonbinding single-dealer quotes not corroborated by observable market data.

Property and equipment: Property and equipment is recorded at cost. The School capitalizes all purchases of property and equipment in excess of \$1,000. Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets.

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 certain reported amounts and disclosures. Actual results could differ from those estimates.

Prior-year summarized information: The financial statements include certain prior-year summarized comparative information in total but not by net asset and functional classifications. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the School's financial statements for the year ended June 30, 2014, from which the summarized information was derived.

Income taxes: The Internal Revenue Service has determined that the School is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (the Code) and from state and local income taxes. The School is subject to unrelated business income tax (UBIT), if applicable. For the years ended June 30, 2015 and 2014, the School did not owe any UBIT.

Reclassifications: For comparability, certain 2014 amounts have been reclassified, where appropriate, to conform with the financial statement presentation used in 2015. Such reclassifications had no effect on previously reported net assets or changes in net assets.

Subsequent events: The School evaluates events occurring after the date of the financial statements to consider whether or not the impact of such events needs to be reflected or disclosed in the financial statements. Such evaluation is performed through the date the financial statements are available to be issued, which was October 30, 2015 for these financial statements.

Assets measured at fair value on a recurring basis using Level 1 inputs are money market funds held by one financial institution. Their fair value as of June 30, 2015 and 2014 are \$777,295 and \$968,381, respectively.

Investment income shown in the accompanying statement of activities consists of the following:

	2015	2014
Interest and dividend income	\$ 1,551	\$ 10,651
Net realized and unrealized gain	-	15,069
	<u>\$ 1,551</u>	<u>\$ 25,720</u>

Bronx Preparatory Charter School

Notes to Financial Statements

Note 3. Contributions and Other Receivables

Contributions and other receivables include receivables from government contracts and unconditional promises to give, and are due within one year. Management has evaluated these receivables and determined that all of these receivables will be collected in full, and no allowance for uncollectible accounts is necessary.

Note 4. Property and Equipment, Net

Property and equipment, net, consists of the following:

	2015	2014	Estimated Useful Life
Computer equipment and software	\$ 357,403	\$ 907,914	3 to 5 years
Leased computer equipment	103,059	-	
Furniture and fixtures	141,571	383,127	7 years
Musical instruments	40,145	112,677	7 years
Office equipment	219,936	204,990	7 years
Land at 3872 Third Avenue (a, b)	-	658,614	
Interest in Friends' building and improvements (a, b)	15,484,848	19,794,886	28 years
	<u>16,346,962</u>	<u>22,062,208</u>	
Less accumulated depreciation	<u>(1,823,366)</u>	<u>(6,428,793)</u>	
	<u>\$ 14,523,596</u>	<u>\$ 15,633,415</u>	

- (a) The School facility sits on land that was purchased by the School and subsequently transferred to Friends on the same day it was acquired from the New York City Economic Development Corporation. In 2007, Friends sublet the land and building to the School through November 30, 2027 at an annual amount of \$704,100.
- (b) On July 1, 2014, the lease agreement between the School and Friends was amended and restated. The amended and restated lease agreement shall expire on the earlier of: 1) the last day of the month of the 99th anniversary of the commencement date; 2) the termination for any reason the management agreement dated April 2014, as amended, between the School and Democracy Prep Public Schools (DPPS) including any successor, the School's management organization; or 3) revocation or nonrenewal of the School's charter.

The annual base rent equals to an amount sufficient to pay Friends' reasonable and necessary actual, third-party costs of owning the property (including, but not limited to, such costs arising from abatement or remediation of any hazardous or illegal condition not remedied by the School in accordance with and within the cure periods provided by this lease), plus Friends' reasonable and necessary operational and administrative expenses directly associated with the ownership of the property and compliance with this lease for such lease year. The base rent based on Friends operating cost is \$61,231 for the year ended June 30, 2015.

Bronx Preparatory Charter School

Notes to Financial Statements

Note 4. Property and Equipment, Net (Continued)

Due to the estimated fair value rental over the estimated lease payment amount throughout the lease term is higher than the net book value of the building, the School recognizes its interest in Friends building and amortizes its interest over the building's remaining useful life which is approximately 28 years. The amortization expense for the year ended June 30, 2015 is \$458,957. Interest in the School's building, net of accumulated amortization is \$13,149,120 as of June 30, 2015, and is included in property and equipment, net in the statement of financial position.

Note 5. Capital Lease Obligation

During fiscal 2015, the School acquired certain equipment which is classified as a capital lease. The cost of equipment under capital lease is included in the Statement of Financial Position as property and equipment and was \$103,059 at June 30, 2015. Accumulated amortization of the leased equipment as of June 30, 2015 was approximately \$31,000. The leased equipment is amortized on straight line basis over 3 years. The interest rate related to the lease obligation is 6.2%. Amortization of assets under a capital lease is included in depreciation expense.

The future minimum lease payments required under the capital lease and the present value of the net minimum lease payments as of June 30, 2015, are as follows:

Year Ending June 30,

2016	\$ 37,567
2017	37,567
2018	3,397
	<hr/>
	78,531
Less amount representing interest	(5,054)
Present value of net minimum lease payments	<hr/> \$ 73,477 <hr/>

Note 6. Related Party Transactions

In April 2014, the School entered into a management agreement with DPPS, a New York Not-For-Profit Corporation to assume responsibility for the School's educational process, management and operations. As compensation for these services rendered, the School shall pay to DPPS an annual fee equal to 15% of the noncompetitive public revenue received by the School in each fiscal year of the initial term beginning with the fiscal year commencing July 1, 2014, subject to the provisions of the next paragraph. The initial term is for one year beginning July 1, 2014 and ending June 30, 2016. Following the initial term, this percentage will decrease by one-half percent (0.5%) in each renewal term until it reaches a minimum of 12% of the noncompetitive public revenue of the Charter School, which percentage will remain in effect for all subsequent renewal terms.

For the year ended June 30, 2015, the School incurred \$1,714,702 in management fees.

As of June 30, 2015, the School owed additional \$267,686 to DPPS for certain expenses incurred by DPPS on behalf of the School. In addition, DPPS owes the School \$158,460 for service related fees owed at the end of June 30, 2015.

Bronx Preparatory Charter School

Notes to Financial Statements

Note 6. Related Party Transactions (Continued)

In the year ended June 30, 2015, DPPS contributed \$200,000 to the School to be used for the student college preparation program. The amount is included as a temporarily restricted contribution in the statement of activities.

Note 7. Contingencies

Certain grants may be subject to audit by funding sources. Such audit might result in disallowances of cost 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 reserved in the accompanying financial statements for such potential claims.

There is a pending legal action against the School which, in the opinion of management, will not result in a material loss to the School.

Note 8. Employee Benefit Plan

The School maintains a defined contribution retirement plan (the Plan) under Section 401(k) of the Code covering all eligible employees. Under the Plan, the School provides matching contributions equal to 100% of the first 5% of employee contributions made to the Plan. The amount charged to operations for contributions to the Plan for the years ended June 30, 2015 and 2014 approximated \$87,000. The select officers from DPPS serve as trustees of the Plan.



RSM US 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

To the Board of Trustees
Bronx Preparatory Charter School
Bronx, New York

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Bronx Preparatory Charter School (the School), which comprise the statement of financial position as of June 30, 2015, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 30, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the 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 the School's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify a deficiency in internal control, described in the accompanying Schedule of Findings and Questioned Costs as item 2015-A-1 that we considered to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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*.

The School's Response to Finding

The School's response to the finding identified in our audit is described in the accompanying Corrective Action Plan. The School's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

RSM US LLP

New York, New York
October 30, 2015



RSM US LLP

Independent Auditor's Report on Compliance for Each Major Federal Program and on Internal Control Over Compliance

To the Board of Trustees
Bronx Preparatory Charter School
Bronx, New York

Report on Compliance for Each Major Federal Program

We have audited Bronx Preparatory Charter School's (the School) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on of the School's major federal program for the year ended June 30, 2015. The School's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the School's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the School's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the School's compliance.

Opinion on Each Major Federal Program

In our opinion, the School complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the major federal program for the year ended June 30, 2015.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular No. A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2015-B-1 and 2015-B-2. Our opinion on each major federal program is not modified with respect to these matters.

The School's response to the noncompliance findings identified in our audit are described in the accompanying corrective action plan. The School's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of the School is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the School's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the School's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance 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 compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses may exist that were not identified. We identified a deficiency in internal control over compliance, as described in the accompanying schedule of findings and questions costs as item 2015-A-1, that we consider to be a material weakness.

The School's response to the internal control over compliance findings identified in our audit is described in the accompanying Corrective Action Plan. The School's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

RSM US LLP

New York, New York
October 30, 2015

Bronx Preparatory Charter School

**Schedule of Expenditures of Federal Awards
Year Ended June 30, 2015**

Federal Grantor/Pass-Through Grantor/Program Title	Pass-Through Entity Identifying Number	CFDA Number	Federal Expenditures
U.S. Department of Agriculture			
Passed Through the New York State Education Department			
Child Nutrition Cluster:			
School Breakfast Program		10.553	\$ 62,190
National School Lunch Program		10.555	218,592
Total U.S. Department of Agriculture			<u>280,782</u>
U.S. Department of Education			
Passed Through the New York State Education Department			
	0021-14-4125 &		
Grants to Local Educational Agencies (Title I, Part A Cluster)	21154125	84.010	360,792
Improving Teacher Quality State Grants (Title IIA)	147154125	84.367	13,640
Total U.S. Department of Education			<u>374,432</u>
Total expenditures of federal awards			<u><u>\$ 655,214</u></u>

Note 1. Basis of Presentation

This schedule of expenditures of federal awards includes the federal grant activity of the School under programs of the federal government for the year ended June 30, 2015 and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of the U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Bronx Preparatory Charter School and Affiliate

**Summary Schedule of Findings and Questioned Costs
Year Ended June 30, 2015**

I. Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? _yes _no
- Significant deficiency(ies) identified? _yes _none reported

Noncompliance material to financial statements noted? _yes _no

Federal Awards

Internal control over major program:

- Material weakness(es) identified? _yes _no
- Significant deficiency(ies) identified? _yes _none reported

Type of auditor's report issued on compliance for major program: Unmodified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? _yes _no

Identification of Major Program:

CFDA Number(s)

84.010

Program Name or Cluster

Grants to Local Educational Agencies (Title I, Part A Cluster)

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? _yes _no

Bronx Preparatory Charter School and Affiliate

Summary Schedule of Findings and Questioned Costs Year Ended June 30, 2015

II. Findings Related to the Financial Statement Audit as Required to Be Reported in Accordance with Government Auditing Standards

A. Internal Control

2015-A-1 Maintenance of Revenue Records

Criteria

Revenue should be recorded when realized and earned.

Condition

Title I grant revenue was misstated because a portion of the grant amount pertaining to the 12 month contract period ended August 2014 earned in the year ended June 30, 2015 was not recognized in the books and records of the School. Additionally, a portion of grant amount from the 12 month contract period ended August 2015 recognized as revenue during the year was not supported by the program allowable expenditures.

Context

Approximately \$73,000 of Title I grant revenue pertaining to the contract 12 month period ended August 2014 and earned in fiscal year 2015 was not recognized as revenue during the fiscal year. Additionally, approximately \$168,000 of grant amount pertaining to the 12 month contract period ended August 2015 was overstated because this amount is not supported by the program allowable expenditures.

Cause

The School did not record the grant revenue when realized and earned. The analysis and reconciliation of governmental grant revenue, accounts receivable, and cash receipts were not performed throughout the year. In addition, an effective review of grant revenue records and supporting documents was not performed.

Effect

Grant revenue and accounts receivable were overstated by approximately \$95,000. Once the finding was brought to management's attention, corrections was made to the School's financial records and the federal grant Final Expenditure report. The adjusted revenue and account receivable amounts are reflected in the audited financial statements.

Recommendation

We recommend that governmental grant revenue accounts should be analyzed periodically throughout the course of the year to ensure that recording and accounting errors are timely detected and corrected. The year-end schedules should be prepared accurately with the proper reviews in place by the management. Additionally, the School should assign an individual who is knowledgeable of the program requirements for determining allowable costs.

Views of Responsible Officials and Planned Corrective Action

See Corrective Action Plan on page 23.

Bronx Preparatory Charter School and Affiliate

Summary Schedule of Findings and Questioned Costs Year Ended June 30, 2015

B. Compliance Finding

None reported.

III. Findings and Questioned Costs for Federal Awards

A. Internal Control

See Section II, A. Internal Control, for Finding - 2015-A-1

B. Compliance Findings

2015-B-1 Allowable costs charged to the federal program

Information on the Federal Program:

<u>CFDA</u>	<u>Program Name</u>
84.010	Grants to Local Educational Agencies (Title I, Part A Cluster)

Criteria

OMB Circular A-87 or 2 CFR part 200, subpart E requires that allowable costs under the federal program be necessary and reasonable for the performance of the Federal award and be allocable thereto under these principles.

Title I, Section 34 CFR section 200.55 requires that all teachers hired after the first day of the 2002-2003 school year who teach core academic subjects in a program supported with funds under Title I, Part A are highly qualified as defined in Section 34 Sec. 200.56.

Condition

The School charged the salaries and employee benefits of one teacher who did not work in the program and three teachers who were not highly qualified teachers, to the program.

Context

The auditor noted during the audit that out of 7 teachers whose compensation was charged to the program, one teacher did not work in the program and two other teachers were not qualified to work in the program. The compensation cost for these 3 teachers are approximately \$168,000.

Effect

The School charged approximately \$168,000 of unallowable costs to the program. Once the finding was brought to management's attention, management promptly corrected the amount charged to the program and the Final Expenditure Report to be submitted to the New York State Education Department.

Cause

There was no assignment of individual who is knowledgeable of the program requirements for determining allowable costs to review and monitor program expenditures.

Bronx Preparatory Charter School and Affiliate

Summary Schedule of Findings and Questioned Costs Year Ended June 30, 2015

Recommendation

We recommend that the School assign an individual who is knowledgeable of the program requirements for determining allowable costs to review and monitor program expenditures. He or she should also perform the review of the Expenditure reports submitted to the grantor.

Views of Responsible Officials and Planned Corrective Actions

See Corrective Action Plan on page 23.

2015-B-2 Periodic certification for the employees who work solely on the federal program

Information on the Federal Program:

<u>CFDA</u>	<u>Program Name</u>
84.010	Grants to Local Educational Agencies (Title I, Part A Cluster)

Criteria

OMB Circular A-87, Attachment B, paragraph 8.h.(3) requires that where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having first-hand knowledge of the work performed by the employee.

Condition

The semi-annual certification indicating that employees worked solely on the program, is not prepared for all program employees.

Context

During the audit, we noted that the semi-annual certification was not prepared for all program employees. Subsequently, management had the supervisor of the program's employees certify the employees' time and effort on the program.

Effect

The School is not in compliance with OMB Circular A-87, Attachment B, paragraph 8.h.(3)

Cause

Management was not aware of OMB Circular A-87, Attachment B, paragraph 8.h.(3) compliance requirement.

Recommendation

We recommend that Management monitor that certification of the program employees' time and effort be prepared and reviewed by employees' supervisor at least semi-annually.

Views of Responsible Officials and Planned Corrective Actions

See Corrective Action Plan on page 23.

Bronx Preparatory Charter School and Affiliate

**Summary Schedule of Prior Audit Findings
Year Ended June 30, 2015**

The prior year single audit disclosed no significant findings, and no significant uncorrected or unresolved findings exist from prior single audits.



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October 30, 2015

RSM US LLP
Audit Year Ended June 30, 2015

Corrective Actions Taken or Planned on Current Year Findings

2015-A-1 Maintenance of Revenue Records

We acknowledge the finding per the auditors. In response, this was caused largely by the transition in financial staffing at the school. Since then, we have made structural changes to staffing and workflow and are implementing a policy of hard monthly closes. Had this been done at the time, the approximate \$73,000 would have been picked up by the finance team and corrected.

2015-B-1. Allowable costs charged to the federal program

We acknowledge the finding per the auditors. Similar to our response to the Revenue Records, we cite the change in finance staff at the school. The person responsible for reporting did not have a full understanding of the process. As a result, beginning in the current period, we are verifying the number of teachers and their qualifications using the government website with each submittal.

2015-B-2. Periodic certification for the employees who work solely on the federal program

We acknowledge the finding per the auditors. We have put in place a policy for management at the school level to ensure that teachers are scheduled to work in accordance with government guidelines and to verify on a quarterly basis that policy was adhered to.



CFO



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October 30, 2015

Audit Committee of the Board of Trustees and the Management
Bronx Preparatory Charter School
3872 Third Avenue
Bronx, NY 10457

In planning and performing our audit of the consolidated financial statements of Bronx Preparatory Charter School (the School) as of and for the year ended June 30, 2015, in accordance with auditing standards generally accepted in the United States of America, we considered the School's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 deficiency in design exists when (a) a control necessary to meet the control objective is missing, or (b) an existing control is not properly designed so that, even if the control operates as designed, the control objective would not be met. A deficiency in operation exists when a properly designed control does not operate as designed or when the person performing the control does not possess the necessary authority or competence to perform the control effectively.

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.

We also followed up on the status of implementation of the corrective actions on a control deficiency we identified during our 2014 audit, as follows:

Changes in Salary Rates

During the audit, we noted the following instances related to payroll transactions:

- a) The salary recognized and paid to an employee was \$1,000 lower than the rate indicated in the corresponding employment agreement.
- b) There is no evidence of approval of salary rate increase for one employee. Management indicated that the approval was given verbally by the former Head of School.

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The above conditions are indicative of a need to strengthen the process for reviewing and authorizing salary rate changes. We recommend that all changes to an employee's pay rates should be adequately authorized and documented, as well as verified against the payroll and accounting records.

Corrective Action

Management has adopted an improved process for payroll and ensured that this did not occur again.

This communication is intended solely for the information and use of the audit committee, board of trustees and management, and is not intended to be, and should not be, used by anyone other than these specified parties.

Sincerely,

RSM US LLP

New York, New York