

Bronx Prep Charter School

Independent Auditors' Report on Communication of Internal Control Matters

June 30, 2017

Independent Auditors Communication on Internal Control Matters

The Board of Trustees Bronx Prep Charter School

In planning and performing our audit of the financial statements of Bronx Prep Charter School (the "School") as of and for the year ended June 30, 2017, 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 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.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses. 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.

We have other observations and recommendations that are opportunities for strengthening internal control and/or operating efficiency, presented in Addendum A to this letter.

This communication is intended solely for the information and use of management, audit committee, board of Trustees, The Department of Education of the City of New York, The State Education Department of the State University of New York, and others within the School, and is not intended to be and should not be used by anyone other than these specified parties.

We would like to take this opportunity to acknowledge the courtesy and assistance extended to us by the Personnel of the School during the course of our audit.

PKF O'Connor Davies, LLP

October 27, 2017

Addendum A

Other Observations and Recommendations for Strengthening Internal Control and/or Operating Efficiency

1. Credit Card Transactions

During our test of credit card transactions, we noted that a significant portion of charges were not supported by receipts or other supporting documentations, and missing approvals.

The School should support all credit card charges with receipts, invoices, or other backup documentation. The School should also enforce the approval process for credit charges by authorized School personnel. The School identified credit card reconciliation as an area for improvement. As a result, they launched Concur, an automated expense management system, effective July 1, 2017, which is integrated with their accounting software. The School also implemented a new policy whereby all credit card holders are responsible for reconciling their credit cards by no later than the 15th of the following month.

2. General Ledger Maintenance and Account Analysis

During our audit, we noted that although schedules were prepared during our audit field work, these schedules and reconciliations were not prepared and updated throughout the fiscal year. This resulted in various adjustments to the general ledger during the year end closing and preparation of the audit package, which delayed the start and completion of the audit. Although we noted improvements during our 2017 audit, we still encountered delays to the start of the audit because analysis of schedules and account reconciliations were not prepared and updated throughout the fiscal year.

Management should be analyzing accounts and reconciling with the general ledger on a monthly or quarterly basis. The School transitioned from their former accounting software into a more robust program equipped with an amortization and depreciation module and reconciliation of inter-company balances.

Bronx Preparatory Charter School

Financial Statements

June 30, 2017 and 2016

Independent Auditors' Report

Board of Trustees Bronx Preparatory Charter School

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, 2017, 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.

Auditors' 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 auditors' 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 School'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 School'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, 2017, 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.

Prior Period Financial Statements

The summarized comparative financial statements as of June 30, 2016 and for the year then ended, were audited by other auditors who ceased operations. Those auditors expressed an unmodified opinion on those financial statements in their report dated October 31, 2016.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 27, 2017 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 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 the 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 the School's internal control over financial reporting and compliance.

PKF O'Connor Davies, LLP

Harrison, New York
October 27, 2017

Bronx Preparatory Charter School

Statement of Financial Position
June 30, 2017
(with comparative amounts at June 30, 2016)

ASSETS	<u>2017</u>	<u>2016</u>
Current Assets		
Cash and cash equivalents	\$ 8,437	\$ 250,102
Investments	779,170	777,633
Grants and contracts receivable	710,947	502,704
Due from related parties	26,447	183,634
Prepaid expenses and other current assets	<u>24,631</u>	<u>119,313</u>
Total Current Assets	1,549,632	1,833,386
 Property and equipment, net	 <u>13,979,815</u>	 <u>14,052,907</u>
	 <u><u>\$ 15,529,447</u></u>	 <u><u>\$ 15,886,293</u></u>
 LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable and accrued expenses	\$ 487,584	\$ 397,087
Accrued payroll and payroll taxes	547,768	354,230
Bank overdraft	9,293	-
Capital lease obligation	<u>83,411</u>	<u>36,216</u>
Total Current Liabilities	1,128,056	787,533
 Capital lease obligation, less current portion	 <u>271,844</u>	 <u>3,115</u>
Total Liabilities	<u>1,399,900</u>	<u>790,648</u>
 Net Assets		
Unrestricted	1,943,321	2,430,384
Temporarily restricted	<u>12,186,226</u>	<u>12,665,261</u>
Total Net Assets	<u>14,129,547</u>	<u>15,095,645</u>
	 <u><u>\$ 15,529,447</u></u>	 <u><u>\$ 15,886,293</u></u>

See notes to financial statements

Bronx Preparatory Charter School

Statement of Activities
Year Ended June 30, 2017
(with summarized totals for the year ended June 30, 2016)

	2017			2016
	Unrestricted	Temporarily Restricted	Total	Total
OPERATING REVENUE				
State and local per pupil operating revenue				
Regular student enrollment	\$ 9,997,730	\$ -	\$ 9,997,730	\$ 9,804,985
Students with disabilities	624,487	-	624,487	581,753
Grants and contracts				
Federal grants	515,155	-	515,155	491,015
State and local	53,876	-	53,876	43,243
Total Operating Revenue	<u>11,191,248</u>	<u>-</u>	<u>11,191,248</u>	<u>10,920,996</u>
EXPENSES				
Program Services				
Regular education	10,005,874	-	10,005,874	8,973,194
Special education	1,235,892	-	1,235,892	1,335,094
Total Program Services	11,241,766	-	11,241,766	10,308,288
Supporting Services				
Management and general	947,150	-	947,150	1,327,875
Total Expenses	<u>12,188,916</u>	<u>-</u>	<u>12,188,916</u>	<u>11,636,163</u>
(Deficit) from Operations	<u>(997,668)</u>	<u>-</u>	<u>(997,668)</u>	<u>(715,167)</u>
SUPPORT AND OTHER REVENUE				
Contributions	800	10,000	10,800	25,800
Interest income	3,043	-	3,043	1,067
Other income	17,727	-	17,727	4,441
Net assets released from restriction	3,032	(3,032)	-	-
Total Support and Other Revenue	<u>24,602</u>	<u>6,968</u>	<u>31,570</u>	<u>31,308</u>
Result of Operations	(973,066)	6,968	(966,098)	(683,859)
Net assets released from restriction - amortization of interest in Friends' Building	<u>486,003</u>	<u>(486,003)</u>	<u>-</u>	<u>-</u>
Change in Net Assets	(487,063)	(479,035)	(966,098)	(683,859)
NET ASSETS				
Beginning of year	<u>2,430,384</u>	<u>12,665,261</u>	<u>15,095,645</u>	<u>15,779,504</u>
End of year	<u>\$ 1,943,321</u>	<u>\$ 12,186,226</u>	<u>\$ 14,129,547</u>	<u>\$ 15,095,645</u>

See notes to financial statements

Bronx Preparatory Charter School

Statement of Functional Expenses
Year Ended June 30, 2017
(with summarized totals for the year ended June 30, 2016)

	2017			2016		
	Program Services			Management and General		
	Regular Education	Special Education	Total	Management and General	Total	Total
Personnel services costs						
Administrative staff personnel	\$ -	\$ -	\$ -	\$ 482,392	\$ 482,392	\$ 690,323
Instructional personnel	4,698,740	580,372	5,279,112	-	5,279,112	5,261,645
Non-instructional personnel	434,280	53,641	487,921	-	487,921	122,933
Total salaries and staff	5,133,020	634,013	5,767,033	482,392	6,249,425	6,074,901
Employee benefits and payroll taxes	984,644	121,620	1,106,264	92,535	1,198,799	1,179,527
Audit fees	-	-	-	20,000	20,000	59,051
Legal services	-	-	-	1,315	1,315	11,687
Professional fees	86,853	10,728	97,581	8,161	105,742	188,907
Management fees	1,087,033	134,267	1,221,300	102,157	1,323,457	1,405,800
Professional development	120,266	14,855	135,121	-	135,121	84,782
Marketing and recruiting	39,553	4,885	44,438	-	44,438	28,596
Office supplies and instructional materials	480,593	59,361	539,954	45,166	585,120	562,753
Equipment/furnishings	11,812	1,459	13,271	1,110	14,381	12,840
Equipment rental	62,944	7,774	70,718	5,916	76,634	95,782
Food services	52,840	6,527	59,367	4,965	64,332	44,563
Student services	388,123	47,941	436,064	-	436,064	309,257
Insurance	115,454	14,260	129,714	10,851	140,565	92,443
Facility expenses	198,617	24,533	223,150	18,666	241,816	225,811
Repairs and maintenance	371,296	45,861	417,157	34,894	452,051	375,843
Technology	75,278	9,298	84,576	7,074	91,650	91,703
Travel	-	-	-	36,997	36,997	11,998
Depreciation and amortization	364,328	45,001	409,329	34,239	443,568	285,532
Loss on disposal of property and equipment	9,500	1,173	10,673	893	11,566	-
Miscellaneous	24,537	3,030	27,567	2,305	29,872	8,384
Total expenses before amortization of interest in Friends' building	9,606,691	1,186,586	10,793,277	909,636	11,702,913	11,150,160
Amortization of interest in Friends' building	399,183	49,306	448,489	37,514	486,003	486,003
Total Expenses	\$ 10,005,874	\$ 1,235,892	\$ 11,241,766	\$ 947,150	\$ 12,188,916	\$ 11,636,163

See notes to financial statements

Bronx Preparatory Charter School

Statement of Cash Flows Year Ended June 30, 2017 (with summarized totals for the year ended June 30, 2016)

	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (966,098)	\$ (683,859)
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation and amortization	443,568	285,532
Loss on disposal of property and equipment	11,566	-
Amortization of interest in Friends' building	486,003	486,003
Changes in operating assets and liabilities		
Grants and contracts receivable	(208,243)	49,238
Due from related parties	157,187	(183,634)
Prepaid expenses and other current assets	94,682	209,018
Accounts payable and accrued expenses	90,497	(55,273)
Accrued payroll and payroll taxes	<u>193,538</u>	<u>130,914</u>
Net Cash from Operating Activities	<u>302,700</u>	<u>237,939</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(440,274)	(300,847)
Purchase of investments	<u>(1,537)</u>	<u>(261)</u>
Net Cash from Investing Activities	<u>(441,811)</u>	<u>(301,108)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments made on capital lease obligation	(111,847)	(34,145)
Bank overdraft	<u>9,293</u>	<u>-</u>
Net Cash from Financing Activities	<u>(102,554)</u>	<u>(34,145)</u>
 Net Change in Cash and Cash Equivalents	 (241,665)	 (97,314)
CASH AND CASH EQUIVALENTS		
Beginning of year	<u>250,102</u>	<u>347,416</u>
End of Year	<u>\$ 8,437</u>	<u>\$ 250,102</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the year for interest	\$ 24,961	\$ 3,422
 Supplemental Schedule of Noncash Investing and Financing Activities		
Computer and equipment acquired under a capital lease	427,771	-

See notes to financial statements

Bronx Preparatory Charter School

Notes to Financial Statements June 30, 2017 and 2016

1. Organization and Tax Status

Bronx Preparatory Charter School (the "School") is a New York State, not-for-profit educational corporation that was incorporated in November 2000 to operate a charter school pursuant to Article 56 of the Education Law of the State of New York. The School was granted a provisional charter on April 4, 2000 valid for a term of five years and renewable upon expiration by the Board of Regents of the University of the State of New York. During 2015, the Board of Regents extended the School's charter for an additional five year term expiring on June 30, 2020. The School is dedicated to providing a high quality college preparatory education to primarily disadvantaged students. Classes commenced in Bronx, New York, in August 2000, and the School provided education to approximately 691 students in grades sixth through twelfth during the 2016-2017 academic year.

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.

The New York City Department of Education provides free lunches and transportation directly to some of the School's students. Such costs are not included in these financial statements. The School covers a portion of the cost of lunches for children not entitled to the free lunches.

Except for taxes that may be due for unrelated business income, the School is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and from state and local income taxes under comparable laws.

2. Summary of Significant Accounting Policies

Basis of Presentation and Use of Estimates

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"), which 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. Accordingly actual results could differ from those estimates.

Bronx Preparatory Charter School

Notes to Financial Statements
June 30, 2017 and 2016

2. Summary of Significant Accounting Policies (*continued*)

Net Asset Presentation

Resources for various purposes are classified for accounting and reporting purposes into net asset categories established according to nature and purpose as follows:

Unrestricted - consist of resources available for the general support of the School's operations. Unrestricted net assets may be used at the discretion of the School's management and Board of Trustees.

Temporarily Restricted - represent amounts restricted by donors for specific activities of the School or to be used at some future date. The School records contributions as temporarily restricted if they are received with donor stipulations that limit their use either through purpose or time restrictions. When a donor restriction expires, that is, when a time restriction ends or a purpose restriction is fulfilled, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. However, when restrictions on donor-restricted contributions are met in the same accounting period in which they are received, such amounts are reported as unrestricted net assets.

Permanently Restricted - consist of net assets that are subject to donor imposed restrictions that require the School to maintain them permanently, including funds that are subject to restrictions of gift instruments requiring that the principal be invested in perpetuity and the income be used for specific or general purposes. Income and gains earned on endowment fund investments are available to be used in the unrestricted or temporarily restricted net asset classes based upon stipulations by the donors.

The School had no permanently restricted net assets at June 30, 2017 and 2016.

Cash and Cash Equivalents

Cash and cash equivalents include cash balances held in bank accounts and highly liquid financial instruments with maturities of three months or less at the time of purchase.

Fair Value Measurements

The School follows U.S. GAAP guidance on Fair Value Measurements which defines fair value and establishes a fair value hierarchy organized into three levels based upon the input assumptions used in pricing assets. Level 1 inputs have the highest reliability and are related to assets with unadjusted quoted prices in active markets. Level 2 inputs relate to assets with other than quoted prices in active markets which may include quoted prices for similar assets or liabilities or other inputs which can be corroborated by observable market data. Level 3 inputs are unobservable inputs and are used to the extent that observable inputs do not exist.

Bronx Preparatory Charter School

Notes to Financial Statements
June 30, 2017 and 2016

2. Summary of Significant Accounting Policies (*continued*)

Investments Valuation and Income Recognition

Investments are carried at fair value. Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis and dividends are recorded on the ex-dividend date. Realized and unrealized gains and losses are included in the determination of the change in net assets.

Restricted Cash

Under the provisions of its charter, the School established an escrow account to pay for legal and audit expenses that would be associated with a dissolution should it occur.

Property and Equipment

The School follows the practice of capitalizing all expenditures for property and equipment with costs in excess of \$1,000 and a useful life in excess of one year. Leasehold improvements are amortized over the shorter of the term of the lease, inclusive of all renewal periods, which are reasonably assured, or the estimated useful life of the asset. Purchased property and equipment are recorded at cost at the date of acquisition. Minor costs of maintenance and repairs are expensed as incurred. All property and equipment purchased with government funding is capitalized, unless the government agency retains legal title to such assets, whereby such assets are expensed as incurred.

Depreciation and amortization is recognized on the straight-line method over the estimated useful lives of such assets as follows:

Computers and equipment	3 and 5 years
Furniture and fixtures	7 years
Software	3 years

Property and equipment are reviewed for impairment if the use of the asset significantly changes or another indicator of possible impairment is identified. If the carrying amount for the asset is not recoverable, the asset is written down to the fair value. There were no asset impairments for the years ended June 30, 2017 and 2016.

Refundable Advances

The School records certain government operating revenue as refundable advances until related services are performed, at which time they are recognized as revenue.

Revenue and Support

Revenue from the state and local governments 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. Federal and other state and local funds are recorded when expenditures are incurred and billable to the government agency.

Bronx Preparatory Charter School

Notes to Financial Statements
June 30, 2017 and 2016

2. Summary of Significant Accounting Policies (*continued*)

Revenue and Support (continued)

Contributions are recognized when the donor makes a promise to give to the School that is, in substance, unconditional. Grants and other contributions of cash are reported as temporarily restricted support if they are received with donor stipulations. Restricted contributions and grants that are made to support the School's current year activities are recorded as unrestricted revenue. Contributions of assets other than cash are recorded at their estimated fair value at the date of donation.

Functional Expense Allocation

The majority of expenses can generally be directly identified with the program or supporting service to which they relate and are charged accordingly. Other expenses by function have been allocated among program and supporting services classifications on the basis of periodic time and expense studies and other basis as determined by management of the School to be appropriate.

Accounting for Uncertainty in Income Taxes

The School recognizes the effect of income tax positions only if those positions are more likely than not to be sustained. Management has determined that the School had no uncertain tax positions that would require financial statement recognition or disclosure. The School is no longer subject to examinations by the applicable taxing jurisdictions for years prior to June 30, 2014.

Prior Year Summarized Comparative Financial Information

The financial statements include prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. GAAP. Accordingly, such information should be read in conjunction with the School's financial statements for the year ended June 30, 2016, from which the summarized information was derived.

Subsequent Events Evaluation by Management

Management has evaluated subsequent events for disclosure and/or recognition in the financial statements through the date that the financial statements were available to be issued, which date is October 27, 2017.

Effective July 1, 2017, Democracy Preparatory Charter School, Democracy Preparatory Harlem Charter School, Harlem Prep Charter School merged into a single legal entity under Bronx Preparatory Charter School. Democracy Preparatory Charter School, Democracy Preparatory Harlem Charter School, Harlem Prep Charter School were dissolved and ceased to exist as legal entities in conjunction with the merger effective date. The plan of merger was approved by the New York State Board of Regents on April 4, 2017.

Bronx Preparatory Charter School

Notes to Financial Statements June 30, 2017 and 2016

3. Investments

The School's investments at June 30, 2017 and 2016 consists of money market funds held by one financial institution, totaling \$779,170 and \$777,633. The investments are classified as level 1 in the fair value hierarchy.

4. Grants and Contracts Receivable

Grants and contracts receivable consist of federal, state and city entitlements and grants. The School expects to collect these receivables within one year.

5. Property and Equipment

Property and equipment consists of the following at June 30:

	2017	2016
Computers and equipment	\$ 1,577,646	\$ 939,879
Furniture and fixtures	188,939	156,922
Software	8,713	8,713
Leasehold improvements	2,106,709	1,932,259
Interest in Friends' Building (a)	13,608,077	13,608,077
	17,490,084	16,645,850
Accumulated depreciation and amortization	(3,510,269)	(2,592,943)
	<u>\$ 13,979,815</u>	<u>\$ 14,052,907</u>

- (a) On July 1, 2014, the lease agreement originally commenced in fiscal year 2007, with 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 between the School and Democracy Prep Public Schools ("DPPS", a related party) (see Note 4); 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 was \$48,000 for the year ended June 30, 2017 and 2016.

Bronx Preparatory Charter School

Notes to Financial Statements June 30, 2017 and 2016

5. Property and equipment (*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 years ended June 30, 2017 and 2016 was \$486,003. Interest in the School's building, net of accumulated amortization is \$12,177,114 and \$12,663,117 at June 30, 2017 and 2016, and is included in property and equipment in the accompanying statement of financial position.

6. Related Party Transactions (not disclosed elsewhere)

Bronx Preparatory Charter School ("BPCS") is affiliated with five charter schools: Democracy Preparatory Harlem Charter School ("DPH"), Harlem Prep Charter School ("HPCS"), Democracy Prep Endurance Charter School ("DPE"), and Democracy Preparatory Charter School ("DPCS"), all New York State not-for-profit organizations. Democracy Prep Congress Heights ("DPCH") is a Washington, DC not-for-profit organization. All are managed by Democracy Prep Public Schools ("DPPS").

The School is an affiliate of DPPS, a New York State not-for-profit charter management organization. The School entered into a management agreement with DPPS to assume responsibility for the School's educational process, management and operations. As compensation to DPPS for these services rendered, the School shall pay to DPPS an annual fee equal to 15% of the School's non-competitive public revenue in the initial term. The initial term is for one year beginning July 1, 2014 and ending June 30, 2015. The percentage will decrease by one-half percent (0.5%) in each renewal term until it reaches a minimum of 12% of the non-competitive public revenue of the School and will remain in effect for all subsequent renewal terms. Following the initial term, the agreement will automatically extend for successive one-year periods unless terminated by either party. For the years ended June 30, 2017 and 2016, DPPS charged an annual management fee of 14.5% and 15% to the School. On July 1, 2015, the School and DPPS amended the management agreement to include a provision which states that in the event the School incurs an operating deficit due to management fees charged, the management fees will be reduced to an amount that would result in a zero change in net assets, excluding amortization in Friends' building. For the years ended June 30, 2017 and 2016, management fees charged by DPPS were reduced by \$285,144 and \$158,347 to reduce the operating deficit. For the years ended June 30, 2017 and 2016, the School incurred \$1,323,457 and \$1,405,800 in management fees.

Bronx Preparatory Charter School

Notes to Financial Statements June 30, 2017 and 2016

6. Related Party Transactions (not disclosed elsewhere) (continued)

For operational efficiency and purchasing power, the School shares expenses with the related charter schools and charter management organization. The net balance due from (to) related parties consists of the following at June 30:

	2017	2016
DPCS	\$ (4,025)	\$ (1,846)
DPH	309	-
DPPS	30,163	185,480
Net balance due (to) related parties	<u>\$ 26,447</u>	<u>\$ 183,634</u>

7. Concentration of Credit Risk

Financial instruments that potentially subject the School to concentrations of credit and market risk consist principally of cash and cash equivalents on deposit with financial institutions, which from time to time may exceed the Federal Deposit Insurance Corporation ("FDIC") limit. The School does not believe that a significant risk of loss due to the failure of a financial institution presently exists.

8. Concentration of Revenue and Support

The School receives a substantial portion of its revenue and support from the New York City Department of Education. For the years ended June 30, 2017 and 2016, the School received approximately 95% of total revenue and support from the New York City Department of Education. If the charter school laws were modified, reducing or eliminating these revenues, the School's finances could be materially adversely affected.

9. Temporarily Restricted Net Assets

Temporarily restricted net assets consist of the following at June 30:

	2017	2016
Korean dual language program	\$ 9,112	\$ 2,144
Interest in Friends' building (Note 5)	12,177,114	12,663,117
	<u>\$ 12,186,226</u>	<u>\$ 12,665,261</u>

Net assets were released from donor restrictions by satisfying the purpose specified by donor as follows for year ended June 30:

	2017	2016
Korean dual language program	\$ 3,032	\$ 2,856
Interest in Friends' building (Note 5)	486,003	486,003
	<u>\$ 489,035</u>	<u>\$ 488,859</u>

Bronx Preparatory Charter School

Notes to Financial Statements June 30, 2017 and 2016

10. Capital Lease Obligation

The School leases computers and equipment under capital leases that expire at various dates through in June 2021. The asset and liability under the capital lease are recorded at the present value of the minimum lease payments. The asset is being depreciated over its estimated useful life.

Following is a summary of property and equipment held under capital leases at June 30:

	2017	2016
Computers and Equipment	\$ 530,830	\$ 103,059
Accumulated Depreciation	(185,750)	(65,843)
	<u>\$ 345,080</u>	<u>\$ 37,216</u>

The future minimum lease payments are as follows:

Year ending June 30,	2018	\$ 102,371
	2019	99,240
	2020	99,240
	2021	<u>99,240</u>
Total minimum lease payments		400,091
Amounts representing interest		<u>(44,836)</u>
Present value of minimum lease payments		355,255
Current portion		<u>(83,411)</u>
Capital lease obligation, less current portion		<u>\$ 271,844</u>

11. Employee Benefit Plan

The School maintains a retirement plan qualified under Internal Revenue Code 403(b), for the benefit of its eligible employees. Under the plan, the School provided matching contributions up to 5% of the participant's annual compensation. Employer match for the years ended June 30, 2017 and 2016 amounted to \$162,986 and \$163,779.

12. Contingency

Certain grants and contracts may be subject to audit by the funding sources. Such audits might result in disallowances of costs submitted for reimbursements. 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.

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 Auditors' Report

**Board of Trustees
Bronx Preparatory Charter School**

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, 2017, 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 27, 2017.

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. 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 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*.

We noted certain matters that were reported to the management of the School in a separate letter dated October 27, 2017.

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 School'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 School's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

PKF O'Connor Davies, LLP

Harrison, New York
October 27, 2017

Bronx Prep Charter School

Independent Auditors' Report on Communication of Internal Control Matters

June 30, 2017

Independent Auditors Communication on Internal Control Matters

The Board of Trustees Bronx Prep Charter School

In planning and performing our audit of the financial statements of Bronx Prep Charter School (the "School") as of and for the year ended June 30, 2017, 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 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.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses. 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.

We have other observations and recommendations that are opportunities for strengthening internal control and/or operating efficiency, presented in Addendum A to this letter.

This communication is intended solely for the information and use of management, audit committee, board of Trustees, The Department of Education of the City of New York, The State Education Department of the State University of New York, and others within the School, and is not intended to be and should not be used by anyone other than these specified parties.

We would like to take this opportunity to acknowledge the courtesy and assistance extended to us by the Personnel of the School during the course of our audit.

PKF O'Connor Davies, LLP

October 27, 2017

Addendum A

Other Observations and Recommendations for Strengthening Internal Control and/or Operating Efficiency

1. Credit Card Transactions

During our test of credit card transactions, we noted that a significant portion of charges were not supported by receipts or other supporting documentations, and missing approvals.

The School should support all credit card charges with receipts, invoices, or other backup documentation. The School should also enforce the approval process for credit charges by authorized School personnel. The School identified credit card reconciliation as an area for improvement. As a result, they launched Concur, an automated expense management system, effective July 1, 2017, which is integrated with their accounting software. The School also implemented a new policy whereby all credit card holders are responsible for reconciling their credit cards by no later than the 15th of the following month.

2. General Ledger Maintenance and Account Analysis

During our audit, we noted that although schedules were prepared during our audit field work, these schedules and reconciliations were not prepared and updated throughout the fiscal year. This resulted in various adjustments to the general ledger during the year end closing and preparation of the audit package, which delayed the start and completion of the audit. Although we noted improvements during our 2017 audit, we still encountered delays to the start of the audit because analysis of schedules and account reconciliations were not prepared and updated throughout the fiscal year.

Management should be analyzing accounts and reconciling with the general ledger on a monthly or quarterly basis. The School transitioned from their former accounting software into a more robust program equipped with an amortization and depreciation module and reconciliation of inter-company balances.