

**BROOKLYN PROSPECT CHARTER SCHOOL AND AFFILIATE**

**MANAGEMENT LETTER**

**JUNE 30, 2010**

FRUCHTER ROSEN & COMPANY, P.C.  
CERTIFIED PUBLIC ACCOUNTANTS  
156 WEST 56<sup>TH</sup> STREET  
NEW YORK, NEW YORK 10019

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TEL: (212) 957-3600  
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August 10, 2010

Audit Committee of the Board of Trustees  
Brooklyn Prospect Charter School and Affiliate  
153 35<sup>th</sup> Street  
Brooklyn, NY 11232

In planning and performing our audit of the consolidated financial statements of Brooklyn Prospect Charter School (the "School") and Prospect School, Inc (Affiliate) (collectively referred as the "Organization") as of June 30, 2010 and for the period from July 28, 2008 to June 30, 2010, in accordance with auditing standards generally accepted in the United States of America, we considered Organization's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

During the audit we became aware of several matters that are opportunities for strengthening internal and operating efficiency. Exhibit 1 that accompanies this letter summarizes our comments and recommendations concerning those matters.

Audit Committee of the Board of Trustees  
Brooklyn Prospect Charter School and Affiliate

This communication is intended solely for the information and use of management, Board of Trustees, federal, state and local awarding agencies, the Charter Schools Institute of the State University of New York, The State Education Department of the State University of New York, and others within the Organization and is not intended to be and should not be used by anyone other than these specified parties

  
FRUCHTER ROSEN & COMPANY, P.C.  
Certified Public Accountants

New York, New York

August 10, 2010

BROOKLYN PROSPECT CHARTER SCHOOL AND AFFILIATE  
MANAGEMENT LETTER  
JUNE 30, 2010

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**BROOKLYN PROSPECT CHARTER SCHOOL AND AFFILIATE  
MANAGEMENT LETTER**

**A. PROCUREMENT OF GOODS AND SERVICES**

**Observation**

We noted the following exceptions regarding the School's procurement system during our test of 30 samples transactions. A substantial portion of these instances occurred during the School start up phase and were deemed immaterial.

- Purchase orders/invoices to document prior authorization and/or approval were not consistently used. Seven instances where approval signatures on the purchase orders/invoices are missing but checks were drawn to pay for the goods.
- Nine instances where we noted no evidence of date of cancelation on purchase when paid.

**Recommendation**

The Organization should enforce the procurement policies and procedures that are outlined in its fiscal policies and procedures manual. The Organization should document in writing all decisions that are not consistent with policy. If such situations are common, consideration should be given to modifying the policy.

**Management's Response**

With the addition of a Director of Operations and Finance and Assistant Director of Operations and Finance (in March 2009 and July 2009 respectively), we significantly increased adherence to and oversight of adherence to our Financial Policies and Procedures, including, but not limited to, those related to procurement of goods and services. We will continue to be vigilant in following our financial policies and procedures in regard to the procurement of goods and services, and will document in writing any decisions that are not consistent with policy. To the degree those situations are common, we will consider modifying related policies.

**BROOKLYN PROSPECT CHARTER SCHOOL AND AFFILIATE  
MANAGEMENT LETTER**

**B. INSURANCE COVERAGE**

**Observation**

We noted insurance coverage under employee dishonesty is limited to \$300,000. This coverage appears low based on current cash values; therefore we believe the Organization is underinsured in regards to the above coverage.

**Recommendation**

We recommend an increase of coverage for employee dishonesty to an amount that covers maximum cash held by the school at any one time during the year. In addition, the School should periodically review insurance coverage to ensure proper and adequate means by which to preserve School assets.

**Management's Response**

The Organization insurance coverage for employee dishonesty for 2010 – 2011 was increased to \$500,000. We will continue to, at minimum, annually review our insurance coverages vs. current cash values.

**C. INCOMPLETE STUDENT FILES**

**Observation**

We noted the following exceptions during our test of 30 student files:

- Two student files did not contain a birth certificate
- Three student files did not contain the student's records from the prior school
- Seven student files did not contain parent/guardian home language identification
- Two student files did not contain a photo/media release form

**Recommendation**

In an effort to ensure that student records are complete, we recommend that the School's checklist should be utilized periodically to insure that information is complete and updated for each student file.

**Management's response**

We have tightened up our tracking of student file content and will continue to closely monitor and follow up on missing documents.

**BROOKLYN PROSPECT CHARTER SCHOOL AND AFFILIATE**

**(Not-For-Profit Corporations)**

**CONSOLIDATED FINANCIAL STATEMENTS**

**JUNE 30, 2010**

BROOKLYN PROSPECT CHARTER SCHOOL AND AFFILIATE  
(Not-For-Profit Corporations)  
CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2010

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INDEPENDENT AUDITORS' REPORT

TO THE BOARD OF TRUSTEES  
BROOKLYN PROSPECT CHARTER SCHOOL  
PROSPECT SCHOOL, INC.

We have audited the accompanying consolidated statement of financial position of Brooklyn Prospect Charter School and Affiliate ("the Organization") as of June 30, 2010, and the related consolidated statements of activities, and cash flows for the period from July 28, 2008 to June 30, 2010. These consolidated financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Brooklyn Prospect Charter School and Affiliate as of June 30, 2010, and the changes in its net assets and its cash flows for the period from July 28, 2008 to June 30, 2010, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 10, 2010, on our consideration of the Organization'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 on compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

*Frchter Rosen & Co. P.C.*

FRUCHTER ROSEN & COMPANY, P.C.  
Certified Public Accountants

New York, New York  
August 10, 2010

BROOKLYN PROSPECT CHARTER SCHOOL AND AFFILIATE  
(Not-For-Profit Corporations)  
CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
JUNE 30, 2010

ASSETS	
Current assets:	
Cash and cash equivalents	\$ 410,017
Grants and contract receivables	86,154
Prepaid expenses	<u>2,852</u>
Total current assets	499,023
Property and equipment, net of accumulated depreciation and amortization of \$17,270	<u>146,784</u>
TOTAL ASSETS	<u><u>\$ 645,807</u></u>
LIABILITIES AND NET ASSETS	
Current liabilities:	
Accounts payable and accrued expenses	\$ 49,203
Accrued payroll and payroll taxes	48,575
Refundable advances	<u>2,309</u>
Total current liabilities	100,087
Net assets:	
Unrestricted net assets	538,220
Temporarily restricted net assets	<u>7,500</u>
Total net assets	<u>545,720</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 645,807</u></u>

The accompanying notes are an integral part of the consolidated financial statements.

BROOKLYN PROSPECT CHARTER SCHOOL AND AFFILIATE  
(Not-For-Profit Corporations)  
CONSOLIDATED STATEMENT OF ACTIVITIES  
FOR THE PERIOD FROM JULY 28, 2008 TO JUNE 30, 2010

	<u>Unrestricted</u>	<u>Temporarily Rescticted</u>	<u>Total</u>
Revenue and support:			
State and local per pupil operating revenue	\$ 1,531,908	\$ -	\$ 1,531,908
State grants	152,851	-	152,851
Federal grants	513,354	-	513,354
Contributions	235,585	7,500	243,085
Donated services	114,489	-	114,489
Special event, net of expenses of \$2,597	9,274	-	9,274
Other income	7,238	-	7,238
Net assets release from restritions - satisfaction of purpose restriction	-	-	-
Total revenue and support	<u>2,564,699</u>	<u>7,500</u>	<u>2,572,199</u>
Expenses:			
Program services			
Regular education	1,008,067	-	1,008,067
Special education	252,017	-	252,017
Total program services	<u>1,260,084</u>		<u>1,260,084</u>
Supporting services			
Management and general	671,116	-	671,116
Fundraising	107,410	-	107,410
Total expenses	<u>2,038,610</u>	<u>-</u>	<u>2,038,610</u>
Change in net assets	526,089	7,500	533,589
Net assets - beginning of period	<u>12,131</u>	<u>-</u>	<u>12,131</u>
Net assets - end of period	<u>\$ 538,220</u>	<u>\$ 7,500</u>	<u>\$ 545,720</u>

The accompanying notes are an integral part of the consolidated financial statements.

BROOKLYN PROSPECT CHARTER SCHOOL AND AFFILIATE  
(Not-For-Profit Corporations)  
CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR THE PERIOD FROM JULY 28, 2008 TO JUNE 30, 2010

CASH FLOWS FROM OPERATING ACTIVITIES	
Increase in net assets	\$ 533,589
Adjustments to reconcile increase in net assets to net cash provided by operating activities:	
Depreciation and amortization	17,270
Changes in certain assets and liabilities:	
(Increase) in grants and contract receivables	(86,154)
(Increase) in prepaid expenses	(2,852)
Increase in accounts payable and accrued expenses	49,203
Increase in accrued payroll and payroll taxes	48,575
Increase in refundable advances	<u>2,309</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>561,940</u>
CASH FLOWS FROM INVESTING ACTIVITY	
Purchase of property and equipment	<u>(164,054)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	397,886
CASH AND CASH EQUIVALENTS - BEGINNING OF PERIOD	<u>12,131</u>
CASH AND CASH EQUIVALENTS - END OF PERIOD	<u><u>\$ 410,017</u></u>

The accompanying notes are an integral part of the financial statements.

BROOKLYN PROSPECT CHARTER SCHOOL AND AFFILIATE  
(Not-For-Profit Corporations)  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2010

NOTE 1 - PRINCIPAL BUSINESS ACTIVITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization

Brooklyn Prospect Charter School (the "School") is an educational corporation that operates a charter school in the borough of Brooklyn, New York. On July 28, 2008, the Board of Regents of the University of the State of New York granted the School a provisional charter valid for a term of five years and renewable upon expiration.

The School's mission is to pair students with excellent teachers in a college preparatory environment using the pillars of international baccalaureate program. The School prepare students for success as global citizens and helps students develop the love of learning that provides the foundation for personal and professional success.

In fiscal year 2010, the School operated classes for 101 students in grade six.

The New York City Department of Education ("NYCDOE") provides free classroom space to the School. The School is responsible for extended use of building beyond the regular opening hours.

Prospect Schools, Inc. ("Prospect") (formerly "New Millennium Charter Schools Foundation, Inc".) was incorporated June 4, 2007 as a not-for-profit corporation under subparagraph (a)(5) of Section 102 of the Not-For-Profit Corporation Law. Prospect was organized to raise funds and support the School.

Food Services

The New York City Department of Education provides free lunches 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.

Tax Status

The School and Prospect are exempt from Federal income tax under Section 501(a) of the Internal Revenue Code as an organization described in Section 501(c)(3) and a similar provision under New York State income tax laws. The School and PS have also been classified as an entity that is not a private foundation within the meaning of Section 509(a) and qualifies for deductible contributions as provided in section 170(b)(1)(A)(ii).

Basis of Presentation and Consolidation

The accompanying financial statements are prepared on a consolidated basis for reporting purposes based on common management, board of trustees and economic interest. Accordingly, the accompanying consolidated financial statements include the accounts of the School and Prospect (collectively referred to as the "Organization"). All intercompany balances and transactions have been eliminated in the accompanying consolidated financial statements.

BROOKLYN PROSPECT CHARTER SCHOOL AND AFFILIATE  
(Not-For-Profit Corporations)  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2010

NOTE 1 - PRINCIPAL BUSINESS ACTIVITY AND SUMMARY OF SIGNIFICANT ACCOUNTING  
POLICIES (Continued)

Basis of Presentation and Consolidation (Continued)

The financial statement presentation follows the recommendations of the Financial Accounting Standard Board (FASB) in its Accounting Standards Codification (ASC), "Financial Statements of Not-For-Profit Organizations." Under FASB ASC 958-205, the Organization is required to report information regarding its financial position and activities according to three classes of net assets; unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. The net assets classifications are described as follows:

Unrestricted

Net assets of the Organization whose use has not been restricted by an outside donor or by law. They are available for any use in carrying out the operations of the Organization.

Temporarily Restricted

Net assets of the Organization whose use has been limited by donor-imposed stipulations that either expire with the passage of time or can be fulfilled and removed by actions of the Organization. When such stipulations end or are fulfilled, such temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities and changes in net assets, as net assets released from restrictions

Permanently Restricted

Net assets of the Organization whose use has been permanently limited by donor-imposed restrictions. Such assets include contributions required to be invested in perpetuity, the income from which is available to support charitable purposes designated by the donors.

The Organization have no permanently restricted net assets at June 30, 2010.

Revenue and Support

Contributions are recognized when the donor makes a Promise to Give to the Organization 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 Organization's current year activities are recorded as unrestricted revenue. Contributions of assets other than cash are recorded at their estimated fair value.

BROOKLYN PROSPECT CHARTER SCHOOL AND AFFILIATE  
(Not-For-Profit Corporations)  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2010

NOTE 1 - PRINCIPAL BUSINESS ACTIVITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue and Support (Continued)

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.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Cash and Cash Equivalents

For the purpose of the Statement of Cash Flows, the Organization considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Concentration of Credit Risk

Financial instruments which potentially subject the School to concentrations of credit risk are cash and cash equivalents. The Organization places its cash and cash equivalents on deposit in what it believes to be highly credited financial institutions. Cash balances may exceed the FDIC insured levels of \$250,000 per institution at various times during the year. The Organization believes that there is little risk in any losses and has not experienced any losses in such accounts.

Property and Equipment

Purchased property and equipment are recorded at cost. Maintenance and repairs are expensed as incurred. All property and equipment purchased with government funding, whereas the government agency retains legal title to the long lived asset is expensed as incurred. Depreciation and amortization is provided on the straight line method over the estimated useful lives as follows:

Computers and Equipment	3-5 years
Furniture and Fixtures	7 years
Software	3 years

Refundable Advances

The Organization records grant revenue as a refundable advance until it is expended for the purpose of the grant, at which time it is recognized as revenue.

BROOKLYN PROSPECT CHARTER SCHOOL AND AFFILIATE  
(Not-For-Profit Corporations)  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2010

NOTE 1 - PRINCIPAL BUSINESS ACTIVITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recent accounting pronouncements

In June 2009, the FASB issued FASB Accounting Standards Codification (ASC) 105, *Generally Accepted Accounting Principles*, which establishes the FASB Accounting Standards Codification as the sole source of authoritative generally accepted accounting principles. Pursuant to the provisions of FASB ASC 105, the organization has updated references to GAAP in its financial statements issued for the period from July 28, 2008 (inception) to June 30, 2010. The adoption of FASB ASC 105 did not impact the Organization's financial position or results of operations.

The Organization adopted the provisions of ASC 740, *Income Taxes*, as of July 1, 2009. This standard clarifies the accounting for uncertainty in income taxes recognized in an organization's financial statements and prescribes a recognition threshold and measurement standard for the financial statement recognition and measurement of income tax position taken or expected to be taken in a tax return. The organization has reviewed its tax positions for open tax years and has concluded that the adoption of this standard did not have an impact on the financial statements of the Organization.

NOTE 2 - GRANTS AND CONTRACT RECEIVABLES

Grants and contract receivables consisted of federal and city entitlements and grants. The School expects to collect these receivables within one year.

NOTE 3 - PROPERTY AND EQUIPMENTS

Property and equipment consists of the following at June 30, 2010:

Computers and Equipment	\$ 155,450
Furniture and Fixtures	1,635
Software	1,094
Construction-in-progress	<u>5,875</u>
	164,054
Less Accumulated Depreciation and Amortization	<u>17,270</u>
	<u>\$ 146,784</u>

Depreciation and amortization expense was \$17,270 for the period from July 28, 2008 to June 30, 2010.

At June 30, 2010, Construction-in-progress is comprised of architect fees for the planning, development, and construction of a new building facility for the School with a scheduled completion date for the fall of 2011.



BROOKLYN PROSPECT CHARTER SCHOOL AND AFFILIATE  
(Not-For-Profit Corporations)  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2010

NOTE 4 - CONTINGENCY

Certain grants and contracts may be subject to audit by the funding sources. Such audits might result in disallowances, if any, will not have a material effect on the accompanying consolidated financial statements. Accordingly, no amounts have been provided in the accompanying consolidated financial statements for such potential claims

NOTE 5 - REVENUE CONCENTRATION

The School receives a substantial portion of its support and revenue 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.

NOTE 6 - FUNCTIONAL ALLOCATION OF EXPENSE

Directly identifiable expenses are charged to programs and supporting services. Expenses related to more than one function are charged to programs and supporting services on the basis of periodic time and expense studies. Management and general expense includes those expenses that are not directly identifiable with any other specific function, but provide for the overall support and direction of the Organization.

NOTE 7 - RETIREMENT PLAN

During the fiscal year 2010, the School maintained a qualified 401K plan. Under the plan the School matched employee contributions up to 4% of the annual compensation covered under the employment arrangement with ADP Retirement Services. Employee match for the period from July 28, 2008 to June 30, 2010 amounted to \$26,967.

NOTE 8 - EMPLOYMENT CONTRACT

The School entered into a co-employment arrangement with ADP Total Source, Inc a professional employment organization, effective August 1, 2009. Under the co-employment arrangement, ADP assumes certain employment responsibilities, including the payment and reporting employees' wages and payroll taxes.

NOTE 9 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at June 30, 2010 consists of \$7,500 for Spirals Music Trust Grant for serious music program.

BROOKLYN PROSPECT CHARTER SCHOOL AND AFFILIATE  
(Not-For-Profit Corporations)  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2010

NOTE 10 - DONATED SERVICES

Donated services are recognized as contributions in accordance with FASB ASC 605, "Accounts for Contributions Received and Contributions Made," if the services (a) create or enhance non-financial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Organization

Individuals have provided legal services to the School at no charge. The value of these services meets the criteria for recognition in the consolidated financial statements and is recorded at fair value. For the period from July 28, 2008 to June 30, 2010, the value of such donated services amounted to \$84,500. In addition, Sunset Park High School provided physical education teachers and librarian service to the School in the amount of \$29,989. The entire value is included in program, management and general services, in the accompanying consolidated statement of activities.

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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 OF  
BROOKLYN PROSPECT CHARTER SCHOOL AND AFFILIATES

We have audited the consolidated financial statements of Brooklyn Prospect Charter School ("the School") and Affiliate ("Prospect") (collectively referred to as the "Organization") as of June 30, 2010 and for the period from July 28, 2010 to June 30, 2010, and have issued our report thereon dated August 10, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Organization's internal control over financial reporting as a basis for designing our auditing procedures 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 Organization's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's consolidated financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

TO THE BOARD OF TRUSTEES OF  
BROOKLYN PROSPECT CHARTER SCHOOL AND AFFILIATES

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's consolidated financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of consolidated financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to the management of the Organization in a separate letter dated August 10, 2010.

This report is intended solely for the information and use of management, Board of Trustees, federal, state and local awarding agencies, the Charter Schools Institute of the State University of New York, The State Education Department of the State University of New York, and others within the Organization and is not intended to be and should not be used by anyone other than these specified parties.

*Fruchter Rosen & Co P.C.*

FRUCHTER ROSEN & COMPANY, P.C.  
Certified Public Accountants

New York, New York  
August 10, 2010

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INDEPENDENT AUDITORS' REPORT  
ON ADDITIONAL INFORMATION

TO THE BOARD OF DIRECTORS  
BROOKLYN PROSPECT CHARTER SCHOOL AND AFFILIATE

Our report on our audits of the consolidated financial statements of Brooklyn Prospect Charter School and Affiliate (not-for-profit corporations) for June 30, 2010, appears on Page 1. We conducted our audits in accordance with auditing standards generally accepted in the United States of America for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The accompanying additional information is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements as a whole.

*Frchter Rosen & Co. P.C.*

FRUCHTER ROSEN & COMPANY, P.C.  
Certified Public Accountants

New York, New York  
August 10, 2010

BROOKLYN PROSPECT CHARTER SCHOOL AND AFFILIATE  
(Not-For-Profit Corporations)  
CONSOLIDATING SCHEDULE OF FINANCIAL POSITION  
JUNE 30, 2010

	Brooklyn Prospect Charter School	Prospect School, Inc	Elimination	Total
<b>ASSETS</b>				
Current assets:				
Cash and cash equivalents	\$ 236,889	\$ 173,128	\$ -	\$ 410,017
Grants and contract receivable	86,154	-	-	86,154
Due from affiliate	50,150	11,879	(62,029)	-
Prepaid expenses	2,852	-	-	2,852
Total current assets	<u>376,045</u>	<u>185,007</u>	<u>(62,029)</u>	<u>499,023</u>
Property and equipment, net of accumulated depreciation and amortization of \$17,270	<u>146,784</u>	<u>-</u>	<u>-</u>	<u>146,784</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 522,829</u></u>	<u><u>185,007</u></u>	<u><u>\$ (62,029)</u></u>	<u><u>\$ 645,807</u></u>
<b>LIABILITIES AND NET ASSETS</b>				
Current liabilities:				
Accounts payable and accrued expenses	\$ 44,203	\$ 5,000	\$ -	\$ 49,203
Accrued payroll and payroll taxes	48,575	-	-	48,575
Due to affiliate	11,879	50,150	(62,029)	-
Refundable advances	2,309	-	-	2,309
Total current liabilities	<u>106,966</u>	<u>55,150</u>	<u>(62,029)</u>	<u>100,087</u>
Net assets				
Unrestricted net assets	415,863	122,357	-	538,220
Temporarily restricted net asset		7,500	-	7,500
Net assets	<u>415,863</u>	<u>129,857</u>	<u>-</u>	<u>545,720</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u><u>\$ 522,829</u></u>	<u><u>\$ 185,007</u></u>	<u><u>\$ (62,029)</u></u>	<u><u>\$ 645,807</u></u>

BROOKLYN PROSPECT CHARTER SCHOOL AND AFFILIATE  
(Not-For-Profit Corporations)  
CONSOLIDATING SCHEDULE OF ACTIVITIES  
FOR THE PERIOD FROM JULY 28, 2008 TO JUNE 30, 2010

	Brooklyn Prospect Charter School	Prospect School, Inc	Elimination	Total
Revenue and support:				
State and local per pupil operating revenue	\$ 1,531,908	\$ -	\$ -	\$ 1,531,908
State grants	152,851	-	-	152,851
Federal grants	513,354	-	-	513,354
Contributions	126,150	142,035	(25,100)	243,085
In-kind donations	104,489	10,000	-	114,489
Special events net of expenses of \$2,597	-	9,274	-	9,274
Other income	6,560	678	-	7,238
Total revenue and support	<u>2,435,312</u>	<u>161,987</u>	<u>(25,100)</u>	<u>2,572,199</u>
Expenses:				
Program services				
Regular education	1,008,051	25,116	(25,100)	1,008,067
Special education	252,013	4	-	252,017
Total program services	<u>1,260,064</u>	<u>25,120</u>	<u>(25,100)</u>	<u>1,260,084</u>
Supporting services				
Management and general	655,390	15,726	-	671,116
Fundraising	103,995	3,415	-	107,410
Total expenses	<u>2,019,449</u>	<u>44,261</u>	<u>(25,100)</u>	<u>2,038,610</u>
Change in net assets	415,863	117,726	-	533,589
Net assets - beginning of period	-	12,131	-	12,131
Net assets - end of period	<u>\$ 415,863</u>	<u>\$ 129,857</u>	<u>\$ -</u>	<u>\$ 545,720</u>

BROOKLYN PROSPECT CHARTER SCHOOL AND AFFILIATE  
(Not-For-Profit Corporations)

CONSOLIDATED SCHEDULE OF FUNCTIONAL EXPENSES  
FOR THE PERIOD FROM JULY 28, 2008 TO JUNE 30, 2010

	Regular Education	Special Education	Total Program Service	Management and General	Fundraising	Total
Salaries	\$ 662,676	\$ 165,669	\$ 828,345	\$ 301,904	\$ 80,278	\$ 1,210,527
Benefits and taxes	117,099	29,275	146,374	53,814	15,068	215,256
Professional services	33,144	8,286	41,430	71,433	1,003	113,866
Accounting and auditing	-	-	-	70,851	-	70,851
Legal fees	-	-	-	84,500	-	84,500
Payroll service	14,793	3,698	18,491	6,799	1,903	27,193
Accountability consultant	23,300	5,825	29,125	29,125	-	58,250
Program curriculum development	17,938	4,485	22,423	-	-	22,423
Professional development	10,074	2,518	12,592	5,226	31	17,849
Staff recruitment	5,359	1,340	6,699	3,056	690	10,445
Parent Teacher Organization	-	-	-	602	1,163	1,765
Curriculum and classroom	55,165	13,791	68,956	605	-	69,561
Office expenses	26,292	6,573	32,865	25,041	4,672	62,578
Facility expense	1,275	319	1,594	1,705	-	3,299
Technology	2,274	568	2,842	9,198	714	12,754
Miscellaneous	5,292	1,323	6,615	2,940	679	10,234
Donated education services	23,991	5,998	29,989	-	-	29,989
Depreciation expenses	9,395	2,349	11,744	4,317	1,209	17,270
Total expenses	\$ 1,008,067	\$ 252,017	\$ 1,260,084	\$ 671,116	\$ 107,410	\$ 2,038,610