

**Bronx Preparatory Charter  
School and Affiliate**

Consolidated Financial Report

June 30, 2010

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## Independent Auditor's Report

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

We have audited the accompanying consolidated statement of financial position of Bronx Preparatory Charter School and Affiliate (collectively, the "Organization") as of June 30, 2010, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior-year summarized comparative information has been derived from the Organization's 2009 consolidated financial statements and in our report, dated October 26, 2009, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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 Bronx Preparatory Charter School and Affiliate as of June 30, 2010, and the changes in their net assets and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report, dated October 29, 2010, on our consideration of Bronx Preparatory Charter School and Affiliate's internal control over financial reporting and on our tests of their compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The consolidating information on pages 20 and 21 is presented for purposes of additional analysis of the basic consolidated financial statements rather than to present the financial position and change in net assets of the individual organizations. The accompanying consolidated schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic consolidated financial statements. The supplemental consolidating information and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic consolidated financial statements taken as a whole.

*McGladrey & Pullen, LLP*

New York, New York  
October 29, 2010

**Bronx Preparatory Charter School and Affiliate****Consolidated Statements of Financial Position  
June 30, 2010 and 2009**

	2010	2009
<b>ASSETS</b>		
Cash and Cash Equivalents	\$ 704,624	\$ 1,116,138
Short-Term Investments	4,111,179	2,600,377
Contributions and Other Receivables, net	789,585	1,053,830
Other Assets	63,564	82,318
Property and Equipment, net	<u>17,914,463</u>	<u>18,407,218</u>
<b>Total assets</b>	<b><u>\$ 23,583,415</u></b>	<b><u>\$ 23,259,881</u></b>
<b>LIABILITIES AND NET ASSETS</b>		
Liabilities:		
Accounts payable and accrued expenses	\$ 320,745	\$ 273,874
Note payable	<u>3,417,510</u>	<u>3,545,528</u>
<b>Total liabilities</b>	<b><u>3,738,255</u></b>	<b><u>3,819,402</u></b>
Net Assets:		
Unrestricted	18,773,153	18,409,377
Temporarily restricted	<u>1,072,007</u>	<u>1,031,102</u>
<b>Total net assets</b>	<b><u>19,845,160</u></b>	<b><u>19,440,479</u></b>
<b>Total liabilities and net assets</b>	<b><u>\$ 23,583,415</u></b>	<b><u>\$ 23,259,881</u></b>

See Notes to Consolidated Financial Statements.

**Bronx Preparatory Charter School and Affiliate**

**Consolidated Statements of Activities**

**Years Ended June 30, 2010 and 2009**

**(with summarized comparative information for the year ended June 30, 2009)**

	2010			2009
	Unrestricted	Temporarily Restricted	Total	Summarized Comparative Information Total
Operating Revenue:				
State and local per pupil operating revenue	\$ 9,117,741	\$ -	\$ 9,117,741	\$ 8,329,574
Government grants and contracts	955,912	-	955,912	670,540
<b>Total operating revenue</b>	<b>10,073,653</b>	<b>-</b>	<b>10,073,653</b>	<b>9,000,114</b>
Expenses:				
Program services:				
Academic program	8,540,806	-	8,540,806	8,072,585
Enrichment programs	1,346,862	-	1,346,862	1,216,700
General and administrative	483,572	-	483,572	527,996
<b>Total operating expenses</b>	<b>10,371,240</b>	<b>-</b>	<b>10,371,240</b>	<b>9,817,281</b>
<b>Deficit on school operations from government funding</b>	<b>(297,587)</b>	<b>-</b>	<b>(297,587)</b>	<b>(817,167)</b>
Support and Other Revenue:				
Contributions:				
Foundations	439,875	305,000	744,875	1,194,639
Individuals	92,556	-	92,556	130,450
Corporations	29,367	-	29,367	43,504
Benefit event	59,640	-	59,640	-
Interest income	12,115	-	12,115	49,588
Miscellaneous income	68,875	-	68,875	71,072
Net assets released from purpose and time restrictions	205,000	(205,000)	-	-
Fund-raising expenses	(246,065)	-	(246,065)	(185,850)
Loss on uncollectible pledges	-	(59,095)	(59,095)	-
<b>Total support and other revenue</b>	<b>661,363</b>	<b>40,905</b>	<b>702,268</b>	<b>1,303,403</b>
<b>Change in net assets</b>	<b>363,776</b>	<b>40,905</b>	<b>404,681</b>	<b>486,236</b>
Net Assets:				
Beginning	18,409,377	1,031,102	19,440,479	18,954,243
Ending	<u>\$ 18,773,153</u>	<u>\$ 1,072,007</u>	<u>\$ 19,845,160</u>	<u>\$ 19,440,479</u>

See Notes to Consolidated Financial Statements.

**Bronx Preparatory Charter School and Affiliate**

**Consolidated Statements of Functional Expenses**

**Years Ended June 30, 2010 and 2009**

**(with summarized comparative information for the year ended June 30, 2009)**

	2010			2009			
	Program Services			Supporting Services			Summarized Comparative Financial Information Total
	Academic Program	Enrichment Programs	Total Programs	General and Administrative	Fund-Raising	Total	
Salaries - educators	\$ 4,824,052	\$ 575,614	\$ 5,399,666	\$ -	\$ -	\$ 5,399,666	\$ 4,982,554
Salaries - administrators	193,996	-	193,996	336,573	125,971	656,540	630,183
Salaries - facilities	157,946	18,748	176,694	8,468	3,169	188,331	182,820
Payroll taxes and employee benefits	1,308,175	132,502	1,440,677	65,531	22,271	1,528,479	1,332,486
<b>Total personnel expenses</b>	<b>6,484,169</b>	<b>726,864</b>	<b>7,211,033</b>	<b>410,572</b>	<b>151,411</b>	<b>7,773,016</b>	<b>7,128,043</b>
Student meal program	285,316	-	285,316	-	-	285,316	256,133
Classroom books and supplies	238,363	-	238,363	-	-	238,363	338,885
Office expenses	52,286	6,225	58,511	2,490	1,245	62,246	50,208
Student events	-	63,058	63,058	-	-	63,058	53,808
Audit/bank fees/payroll/legal	30,232	3,599	33,831	1,440	720	35,991	77,818
Insurance	68,087	8,106	76,193	3,242	1,621	81,056	94,859
Utilities	152,341	18,136	170,477	7,254	3,627	181,358	205,736
Equipment and furnishings	115,356	13,733	129,089	5,493	2,747	137,329	159,258
Facility maintenance and security	343,819	40,931	384,750	16,372	8,186	409,308	366,420
Interest on facility loan	204,438	24,338	228,776	9,735	4,868	243,379	252,059
Fund-raising	-	-	-	-	58,154	58,154	11,106
Enrichment fees/curriculum materials	-	78,678	78,678	-	-	78,678	69,524
Student field lessons	-	189,022	189,022	-	-	189,022	133,581
College preparation program	-	102,018	102,018	-	-	102,018	104,446
Parent programs	-	4,725	4,725	-	-	4,725	5,893
Depreciation and amortization	566,399	67,429	633,828	26,974	13,486	674,288	695,354
<b>Total expenses</b>	<b>\$ 8,540,806</b>	<b>\$ 1,346,862</b>	<b>\$ 9,887,668</b>	<b>\$ 483,572</b>	<b>\$ 246,065</b>	<b>\$ 10,617,305</b>	<b>\$ 10,003,131</b>

See Notes to Consolidated Financial Statements.

# Bronx Preparatory Charter School and Affiliate

## Consolidated Statements of Cash Flows Years Ended June 30, 2010 and 2009

	2010	2009
Cash Flows From Operating Activities:		
Change in net assets	\$ 404,681	\$ 486,236
Adjustment to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	674,288	695,354
Donated securities, net	(19,885)	-
Loss on uncollectible pledges	59,095	
Changes in operating assets and liabilities:		
Decrease in restricted cash	-	195,000
Decrease (increase) in contributions and other receivables	205,150	(35,671)
Decrease (increase) in other assets	18,754	(56,154)
Increase (decrease) in accounts payable and accrued expenses	46,871	(67,237)
<b>Net cash provided by operating activities</b>	<b>1,388,954</b>	<b>1,217,528</b>
Cash Flows From Investing Activities:		
Purchases of short-term investments	(6,100,624)	(2,600,377)
Proceeds from sale of investments	4,609,707	-
Purchases of property and equipment	(181,533)	(129,177)
<b>Net cash used in investing activities</b>	<b>(1,672,450)</b>	<b>(2,729,554)</b>
Cash Used in Financing Activity - repayment of note payable	(128,018)	(119,388)
<b>Net decrease in cash and cash equivalents</b>	<b>(411,514)</b>	<b>(1,631,414)</b>
Cash and Cash Equivalents:		
Beginning	1,116,138	2,747,552
Ending	\$ 704,624	\$1,116,138
Supplemental Schedule of Noncash Investing Activities:		
Interest paid on loan	\$ 244,125	\$ 252,059

See Notes to Consolidated Financial Statements.

## Bronx Preparatory Charter School and Affiliate

### Notes to Consolidated Financial Statements

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#### **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 by the Board of Regents of the University of the State of New York. After a review process in the fall of 2004, the charter was renewed in 2005, and again in the spring of 2010 for full five-year terms. The School was established to prepare underserved middle and high school students for higher education, community involvement and lifelong success through a structured, caring environment of high academic expectations. In fiscal year 2010, 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 is a not-for-profit organization with a majority of the same directors as the School. The School's board of directors controls the appointment of directors to Friends' board of directors. 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.

Basis of Accounting and Financial Statement Presentation: The accompanying consolidated financial statements include the accounts of Bronx Preparatory Charter School (the "School") and Friends of Bronx Preparatory Charter School, Inc. ("Friends") (collectively referred to as the "Organization"). All intercompany accounts and transactions between these entities have been eliminated.

The consolidated financial statements of the Organization 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, 2010 and 2009, the Organization had no permanently restricted net assets.

Revenue Recognition: 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 those net asset classes. When the specified purpose 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. Several individuals have provided legal services to the Organization at no charge. For the year ended June 30, 2009, the value of such contributed services amounted to approximately \$7,000, which are included as contributions in the accompanying financial statements. The Organization did not receive contributed legal services during the year ended June 30, 2010.

A number of volunteers have made a contribution of their time to the Organization 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 consolidated 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.



## Bronx Preparatory Charter School and Affiliate

### Notes to Consolidated Financial Statements

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#### **Note 1. Organization, Principal Business Activity and Summary of Significant Accounting Policies (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. Revenue from federal, state, and local grants and contracts are recognized when qualifying expenditures are incurred. Cash received in excess of expenditures incurred is recognized as refundable advances.

The New York City Department of Education provides transportation and the federal and state government provides funding for free and reduced-cost breakfast, lunches and snacks directly to a majority of the School's students. The School covers the cost of lunches for children not entitled to the free lunches. Food service revenue and expense are included in these financial statements.

Functional Expenses: The Organization'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 Organization considers all highly liquid financial instruments purchased with a maturity of three months or less to be cash equivalents. The Organization 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 Organization has not experienced any losses in such accounts.

Receivables: Receivables are reported at their outstanding unpaid balances, less allowance for present value discounts and doubtful accounts. Management evaluates the collectability of these receivables on a case-to-case basis considering the Organization'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 cost plus accrued interest, which approximates fair value.

Property and Equipment: Property and equipment is recorded at cost. The Organization 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 consolidated 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 Organization's financial statements for the year ended June 30, 2009, from which the summarized information was derived.

Reclassifications: Certain 2009 account balances have been reclassified to conform with the 2010 financial statement presentation. The reclassification had no effect on the 2009 total assets, total liabilities, total net assets and changes in net assets.

## Bronx Preparatory Charter School and Affiliate

### Notes to Consolidated Financial Statements

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

Income Taxes: The Internal Revenue Service has determined that both the School and Friends are exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (the "Code") and from state income taxes.

On July 1, 2009, the Organization adopted the accounting standard on accounting for uncertainty in income taxes, which addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under this guidance, the Organization may recognize the tax benefit from an uncertain tax position only if it is more-likely-than-not that the tax position will be sustained on examination by taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. The guidance on accounting for uncertainty in income taxes also addresses derecognition, classification, interest and penalties on income taxes, and accounting in interim periods.

Management evaluated the Organization's tax positions and concluded that the Organization had taken no uncertain tax positions that require adjustment to the financial statements to comply with the provisions of this guidance. With few exceptions, the Organization is no longer subject to income tax examinations by U.S. federal, state or local tax authorities for years before 2006, which is the standard statute of limitations look-back period.

Subsequent Events: The Organization 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 issued, which was October 29, 2010 for these financial statements.

#### **Note 2. Fair Value of Cash Equivalents and Short-Term Investments**

The Organization reports its investments under Accounting Standards Codification ("ASC") 820 (formerly SFAS No. 157), *Fair Value Measurements*. ASC 820 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurement. ASC 820 also emphasizes that fair value is a market-based measurement, not an entity-specific measurement, and sets out a fair value hierarchy with the highest priority being quoted prices in active markets. Under ASC 820, fair value measurements are disclosed by level within that hierarchy.

The Organization determines the fair values of its investments based on the fair value hierarchy established in ASC 820, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value, which are as follows:

- Level 1: Inputs that reflect unadjusted quoted market prices in active markets that the Organization has the ability to access at the measurement date.
- Level 2: Inputs other than quoted market prices that are observable for the asset or liability, either directly or indirectly, including inputs in markets that are not considered to be active.
- Level 3: Inputs that are unobservable for the asset or liability and that include situations where there is little, if any, market activity for the asset or liability. The inputs into the determination of fair value are based upon the best information in the circumstances and may require significant management judgment or estimation.

# Bronx Preparatory Charter School and Affiliate

## Notes to Consolidated Financial Statements

### Note 2. Fair Value of Cash Equivalents and Short-Term Investments (Continued)

Cash equivalents and investments measured at fair value on a recurring basis consist of the following as of June 30, 2010:

	<u>Total</u>	<u>Fair Value Measurements Using</u>		
		<u>Quoted Prices in Active Markets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Cash equivalents:				
Money market fund	\$ 245,989	\$ 245,989	\$ -	\$ -
	<u>\$ 245,989</u>	<u>\$ 245,989</u>	<u>\$ -</u>	<u>\$ -</u>
Short-term investments:				
Money market funds	\$ 3,768,918	\$ 3,768,918	\$ -	\$ -
Certificates of deposit	342,261	342,261	-	-
	<u>\$ 4,111,179</u>	<u>\$ 4,111,179</u>	<u>\$ -</u>	<u>\$ -</u>

Approximately 48% of the Organization's cash equivalents and short-term investments are held by one financial institution at June 30, 2010.

Cash equivalents and investments measured at fair value on a recurring basis consist of the following as of June 30, 2009:

	<u>Total</u>	<u>Fair Value Measurements Using</u>		
		<u>Quoted Prices in Active Markets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Cash equivalents:				
Money market fund	\$ 245,989	\$ 245,989	\$ -	\$ -
Certificates of deposit	250,000	-	250,000	-
	<u>\$ 495,989</u>	<u>\$ 245,989</u>	<u>\$ 250,000</u>	<u>\$ -</u>
Short-term investments:				
Money market funds	\$ 2,060,554	\$ 2,060,554	\$ -	\$ -
Certificates of deposit	539,823	-	539,823	-
	<u>\$ 2,600,377</u>	<u>\$ 2,060,554</u>	<u>\$ 539,823</u>	<u>\$ -</u>

## Bronx Preparatory Charter School and Affiliate

### Notes to Consolidated 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 as follows:

	<u>2010</u>	<u>2009</u>
In one year or less	\$ 761,915	\$ 917,668
In more than one year, discounted at 5%	<u>86,765</u>	<u>136,162</u>
	848,680	1,053,830
Less: Allowance on uncollectible pledges	<u>(59,095)</u>	<u>-</u>
	<u>\$ 789,585</u>	<u>\$ 1,053,830</u>

The Organization has evaluated the above receivables and considers all to be collectible when due. Accordingly, no provision for uncollectible accounts is included in the consolidated financial statements.

#### Note 4. Property and Equipment, Net

Property and equipment, net, at cost, consists of the following:

	<u>2010</u>	<u>2009</u>	<u>Estimated Useful Life</u>
Computer equipment and software	\$ 636,748	\$ 579,425	3 to 5 years
Furniture and fixtures	329,270	276,098	7 years
Musical instruments	109,664	109,664	7 years
Office equipment	138,680	80,695	7 years
Land at 3872 Third Avenue (a, b)	658,614	658,614	
Building and improvements (a, b)	<u>19,672,828</u>	<u>19,659,775</u>	10 to 39 years
	21,545,804	21,364,271	
Less accumulated depreciation and amortization	<u>(3,631,341)</u>	<u>(2,957,053)</u>	
	<u>\$ 17,914,463</u>	<u>\$ 18,407,218</u>	

- (a) The land was purchased by the School and subsequently transferred to Friends on the same day that it was acquired from the New York City Economic Development Corporation.
- (b) Friends subleases the land and building to the School through November 30, 2027 at an annual amount of \$704,100. In the spring of 2009, Friends completed sidewalk paving, tree planting and other improvements required to obtain a permanent Certificate of Occupancy. This certificate was issued by the New York City Department of Buildings on May 29, 2009.

## Bronx Preparatory Charter School and Affiliate

### Notes to Consolidated Financial Statements

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#### **Note 5. Note Payable**

In March 2005, the Organization converted its construction loan with the lender, NCB Capital Impact, into a seven-year, \$4,000,000 permanent loan, secured by the building. Interest on this loan accrues at 7% per annum, and is being amortized over a 20-year schedule with a balloon payment due in March 2012. At June 30, 2010, this loan had a balance of \$3,417,510. The future minimum principal payments on this loan are as follows:

Fiscal year ending June 30,

2011	\$ 137,273
2012	<u>3,280,237</u>
	<u><u>\$3,417,510</u></u>

#### **Note 6. Temporarily Restricted Net Assets**

Temporarily restricted net assets include unconditional pledges due in future periods for mortgage payoff and funds designated for mortgage payoff.

Temporarily restricted net assets released from restrictions during the fiscal year 2010 consisted of satisfaction of time restriction of \$150,000 and purpose restriction (program) of \$55,000.

#### **Note 7. Contingency**

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 consolidated financial statements for such potential claims.

#### **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, 2010 and 2009 approximated \$234,000 and \$213,000, respectively. An officer of the School and a member of the board of directors of the School serve as trustees of the Plan.

**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 Directors  
Bronx Preparatory Charter School  
Bronx, New York

We have audited the consolidated financial statements of Bronx Preparatory Charter School (the "School") and Affiliate (collectively, the "Organization") as of and for the year ended June 30, 2010, and have issued our report thereon dated October 29, 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 in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements, but not to provide an opinion on 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 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 over financial reporting 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.

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

We noted certain matters that we reported to management in a separate letter dated October 29, 2010.

This report is intended solely for the information and use of the board of directors and its audit committee, management, the New York State Education Department and the Charter Schools Institute of the State University of New York, and the federal awarding agencies, and is not intended to be, and should not be, used by anyone other than these specified parties.

*McGladrey & Pullen, LLP*

New York, New York  
October 29, 2010

**Independent Auditor's Report on Compliance with Requirements that Could  
Have a Direct and Material Effect on Each Major Program and Internal  
Control Over Compliance in Accordance with OMB Circular A-133**

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

Compliance - We have audited the compliance of Bronx Preparatory Charter School (the "School") with the types of compliance requirements described in the U. S. Office of Management and Budget ("OMB") Circular A-133, *Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010. The School's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the School's management. Our responsibility is to express an opinion on the School's compliance based on our audit.

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. Our audit does not provide a legal determination on School's compliance with those requirements.

In our opinion, the School complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010.

Internal Control Over Compliance - Management of the School is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the School's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance 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 a



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

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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the board of directors and its audit committee, management, the New York State Education Department and the Charter Schools Institute of the State University of New York, and the federal awarding agencies, and is not intended to be, and should not be, used by anyone other than these specified parties.

*McGladrey & Pullen, LLP*

New York, New York  
October 29, 2010

**Bronx Preparatory Charter School and Affiliate****Schedule of Expenditures of Federal Awards  
Year Ended June 30, 2010**

<b>Federal Grantor/Program Title</b>	<b>CFDA No.</b>	<b>Federal Expenditures*</b>
U.S. Department of Agriculture Passed Through the New York State Education Department: Child Nutrition Cluster:		
School Breakfast Program	10.553	\$ 55,735
National School Lunch Program	10.555	<u>235,498</u>
<b>Total Child Nutrition Cluster</b>		<u>291,233</u>
U.S. Department of Agriculture Passed Through the New York State Education Department:		
Grants to Local Educational Agencies (Title IA)	84.010	425,560
ARRA - Title I Grants to Local Educational Agencies	84.389	<u>185,740</u>
<b>Total Title I, Part A Cluster</b>		<u>611,300</u>
Improving Teacher Quality State Grants (Title IIA)	84.367	<u>33,900</u>
Safe and Drug Free Schools and Communities (Title IVA)	84.186	<u>5,700</u>
<b>Total expenditures of federal awards</b>		<u><u>\$ 942,133</u></u>

\*Expenditures are recognized on the accrual basis of accounting.

**Bronx Preparatory Charter School and Affiliate**

**Schedule of Findings and Questioned Costs**

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**I. Summary of Independent Auditor's Results**

***Financial Statements***

Type of auditor's report issued:

Unqualified

Internal control over financial reporting:

- Material weakness(es) identified?        yes   √   no
- Significant deficiency(ies) identified that are not considered to be material weakness(es)?        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 that are not considered to be material weakness(es)?        yes   √   none reported

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

Unqualified

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 Programs:**

CFDA Number(s)

Program Name or Cluster

84.010

Title I, Part A Cluster - Grant to Local Educational Agencies (Title 1A)

84.389

Title I, Part A Cluster – ARRA Grants to Local Educational Agencies

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**

**Schedule of Findings and Questioned Costs**

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

A. Internal Control

None reported.

B. Compliance Findings

None reported.

**III. Findings and Questioned Costs for Federal Awards**

A. Internal Control

None reported.

B. Compliance Findings

None reported.

**Bronx Preparatory Charter School and Affiliate**

**Supplementary Information**

**Consolidating Statement of Financial Position  
Years Ended June 30, 2010 and 2009**

	<b>Bronx Preparatory Charter School</b>	<b>Friends of Bronx Preparatory Charter School, Inc.</b>	<b>Eliminations</b>	<b>Total</b>
<b>ASSETS</b>				
Cash and Cash Equivalents	\$ 402,501	\$ 302,123	\$ -	\$ 704,624
Short-Term Investments	1,960,250	2,150,929	-	4,111,179
Contributions and Other Receivables, net	653,423	136,162	-	789,585
Due From Affiliate	-	176,793	(176,793)	-
Other Assets	4,338	59,226	-	63,564
Property and Equipment, net	1,458,086	16,456,377	-	17,914,463
<b>Total assets</b>	<b>\$ 4,478,598</b>	<b>\$ 19,281,610</b>	<b>\$ (176,793)</b>	<b>\$ 23,583,415</b>
<b>LIABILITIES AND NET ASSETS</b>				
Liabilities:				
Accounts payable and accrued expenses	\$ 267,793	\$ 52,952	\$ -	\$ 320,745
Note payable	-	3,417,510	-	3,417,510
Due to affiliate	176,793	-	(176,793)	-
<b>Total liabilities</b>	<b>444,586</b>	<b>3,470,462</b>	<b>(176,793)</b>	<b>3,738,255</b>
Net Assets:				
Unrestricted	3,834,012	14,820,951	-	18,654,963
Temporarily restricted	200,000	990,197	-	1,190,197
<b>Total net assets</b>	<b>4,034,012</b>	<b>15,811,148</b>	<b>-</b>	<b>19,845,160</b>
<b>Total liabilities and net assets</b>	<b>\$ 4,478,598</b>	<b>\$ 19,281,610</b>	<b>\$ (176,793)</b>	<b>\$ 23,583,415</b>

# Bronx Preparatory Charter School and Affiliate

## Supplementary Information

### Consolidating Statement of Activities Years Ended June 30, 2010 and 2009

	<b>Bronx Preparatory Charter School</b>	<b>Friends of Bronx Preparatory Charter School, Inc.</b>	<b>Eliminations</b>	<b>Total</b>
Operating Revenue:				
State and local per pupil operating revenue	\$ 9,117,741	\$ -	\$ -	\$ 9,117,741
Government grants and contracts	955,912	-	-	955,912
<b>Total operating revenue</b>	<b>10,073,653</b>	<b>-</b>	<b>-</b>	<b>10,073,653</b>
Expenses:				
Program services:				
Academic program	8,414,465	830,441	(704,100)	8,540,806
Enrichment programs	1,202,574	144,288	-	1,346,862
General and administrative	369,315	114,257	-	483,572
<b>Total operating expenses</b>	<b>9,986,354</b>	<b>1,088,986</b>	<b>(704,100)</b>	<b>10,371,240</b>
<b>Excess (deficit) on school operations from government funding</b>	<b>87,299</b>	<b>(1,088,986)</b>	<b>704,100</b>	<b>(297,587)</b>
Support and Other Revenue:				
Contributions:				
Foundations	564,075	180,800	-	744,875
Individuals	44,500	48,056	-	92,556
Corporations	3,697	25,670	-	29,367
Benefit event	1,955	57,685	-	59,640
Interest income	4,849	7,266	-	12,115
Miscellaneous income	39,703	733,272	(704,100)	68,875
Fund-raising expenses	(159,218)	(86,847)	-	(246,065)
Loss on uncollectible pledges	-	(59,095)	-	(59,095)
<b>Total support and other revenue</b>	<b>499,561</b>	<b>906,807</b>	<b>(704,100)</b>	<b>702,268</b>
<b>Change in net assets</b>	<b>586,860</b>	<b>(182,179)</b>	<b>-</b>	<b>404,681</b>
Net Assets:				
Beginning	3,447,152	15,993,327	-	19,440,479
Ending	<u>\$ 4,034,012</u>	<u>\$ 15,811,148</u>	<u>\$ -</u>	<u>\$ 19,845,160</u>