

BROOKLYN PROSPECT CHARTER SCHOOL

MANAGEMENT LETTER

JUNE 30, 2011

FRUCHTER ROSEN & COMPANY, P.C.
CERTIFIED PUBLIC ACCOUNTANTS
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September 15, 2011

Audit Committee of the Board of Trustees
Brooklyn Prospect Charter School
153 35th Street
Brooklyn, NY 11232

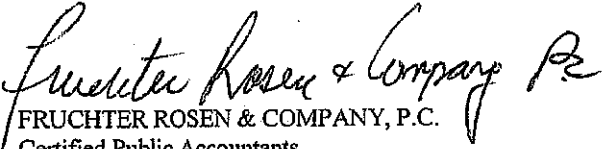
In planning and performing our audit of the financial statements of Brooklyn Prospect Charter School (the "School") as of June 30, 2011 in accordance with auditing standards generally accepted in the United States of America, we considered the School's internal control over financial reporting (internal control) as a basis for designing 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 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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the School'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.

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
September 15, 2011

BROOKLYN PROSPECT CHARTER SCHOOL
MANAGEMENT LETTER
JUNE 30, 2011

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BROOKLYN PROSPECT CHARTER SCHOOL AND AFFILIATE
MANAGEMENT LETTER

EXHIBIT I – CURRENT YEAR OBSERVATION

A. ESCROW ACCOUNT FOR DISSOLUTION

Observation

Under the provision of The Charter Schools Institute of the State University of New York, the School should set aside as a dissolution reserve and earmark the funds in the books and records to pay for legal and audit expenses that would be associated with a dissolution should it occur. This account can be a regular savings, checking, and/or money market account. Existing schools should maintain a minimum balance of \$75,000 in the escrow account by the end of their third year of operations.

Recommendation

The School should establish an escrow account where monies are maintained in a separate account to pay for legal and audit expenses associated with dissolution should it occur. The account can be an interest bearing account where the School may withdraw the interest earned. This will improve the School's cash management practices when preparing an operating budget and cash projections.

Management's Response

The School has always maintained ample funds in its operating and investment accounts. The School will establish a separate bank account funded with \$75,000 that will be available in the case of dissolution.

BROOKLYN PROSPECT CHARTER SCHOOL AND AFFILIATE
MANAGEMENT LETTER

EXHIBIT II – CORRECTIVE ACTION TAKEN ON PRIOR YEAR OBSERVATIONS

In conjunction with performing the audit of the School's financial statements for the year ended June 30, 2011, we followed up on the status of implementation of audit recommendations made for the Period from July 28, 2008 to June 30, 2010. The status updates on those matters are summarized below.

A. 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.

Corrective Action Taken

During the year ended June 30, 2011, the School increased the limits of coverage for employee dishonesty to \$500,000.

B. 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.

Corrective Action Taken

The School has implemented the procurement of goods and services outlined in its fiscal policies and procedures manual. During our 2011 audit, we tested 25 procurement transactions and there were no discrepancies noted.

BROOKLYN PROSPECT CHARTER SCHOOL AND AFFILIATE
MANAGEMENT LETTER

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.

Corrective Action Taken

During our 2011 audit, we tested 20 student files and noted all the required documentation was present in the student files.

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September 9, 2011

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

We have audited the financial statements of Brooklyn Prospect Charter School and Affiliate (the "School") for the year ended June 30, 2011, and have issued our report thereon dated September 9, 2011. Professional standards require that we provide you with the following information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated March 14, 2011, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

As part of our audit, we will consider the internal control of the School. Such considerations will be solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed test of the School's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Planned Scope of the Audit

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit involved judgment about the number of transactions to be examined and the areas to be tested.

Our audit includes obtaining an understanding of the School and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing, and extent of further audit procedures. Material misstatements may result from (1) errors, (2) fraudulent financial reporting, (3) misappropriation of assets, or (4) violations of laws or governmental regulations that are attributable to the entity or to acts by management or employees acting on behalf of the School. We will communicate any internal control related matters that are required to be communicated under professional standards.

We performed our audit according to the plan previously communicated to you in our engagement letter. Discussions were held with management on various dates throughout the audit process.

Other Information in Documents Containing Audited Financial Statements

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with U.S. generally accepted accounting principles, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Brooklyn Prospect Charter School and Affiliate are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during fiscal 2011. We noted no transactions entered into by the School during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated September 15, 2011.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the School's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

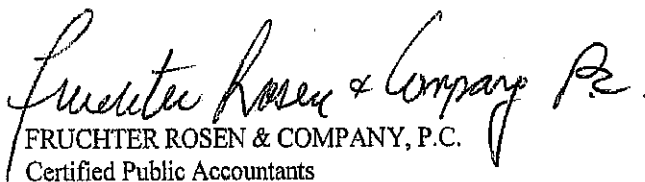
Other Audit Findings or Issues

Throughout the year, routine discussions regarding a variety of matters, including the application of accounting principles and auditing standards, were held with management in connection with transactions that have occurred, transactions that are contemplated, or reassessment of current circumstances. Such discussions have been helpful in conducting the audit.

We have issued a separate report to you, also dated September 9, 2011, containing our comments on Brooklyn Prospect Charter School and Affiliate's internal control.

This information is intended solely for the use of the Board of Trustees and management of Brooklyn Prospect Charter School and Affiliate and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,


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

BROOKLYN PROSPECT CHARTER SCHOOL

(Not-For-Profit Corporation)

FINANCIAL STATEMENTS

June 30, 2011 and 2010

BROOKLYN PROSPECT CHARTER SCHOOL
(Not-For-Profit Corporation)
FINANCIAL STATEMENTS
June 30, 2011 and 2010

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INDEPENDENT AUDITORS' REPORT

TO THE BOARD OF TRUSTEES
BROOKLYN PROSPECT CHARTER SCHOOL

We have audited the accompanying statements of financial position of Brooklyn Prospect Charter School ("the School") as of June 30, 2011 and 2010, and the related statements of activities, and cash flows for the year ended June 30, 2011 and the period from July 28, 2008 (inception) to June 30, 2010. These financial statements are the responsibility of the School's management. Our responsibility is to express an opinion on these financial statements based on our audits. The prior period summarized comparative information has been derived from the School's 2010 consolidated financial statements and in our report dated August 10, 2010, we expressed an unqualified opinion on those consolidated financial statements.

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 audits 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Brooklyn Prospect Charter School as of June 30, 2011 and 2010, and the changes in its net assets and its cash flows for the year ended June 30, 2011 and the period from July 28, 2008 (inception) 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 September 9, 2011, on our consideration of the School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal controls over financial reporting and on compliance and the results of that testing, and not to provide an opinion on the internal controls 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.


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

New York, New York
September 9, 2011

BROOKLYN PROSPECT CHARTER SCHOOL
(Not-For-Profit Corporation)
STATEMENTS OF FINANCIAL POSITION
JUNE 30,

| | <u>2011</u> | <u>2010</u> |
|--|----------------------------|--------------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 915,370 | \$ 236,889 |
| Grants and contract receivables | 17,439 | 86,154 |
| Due from affiliate | - | 38,271 |
| Prepaid expenses | 82,900 | 2,852 |
| Other current assets | <u>201,666</u> | <u>-</u> |
| Total current assets | 1,217,375 | 364,166 |
| Property and equipment, net of accumulated depreciation and amortization of \$54,909 and \$17,270, respectively | 162,514 | 146,784 |
| Security deposit | <u>291,356</u> | <u>-</u> |
| TOTAL ASSETS | <u><u>\$ 1,671,245</u></u> | <u><u>\$ 510,950</u></u> |
| LIABILITIES AND UNRESTRICTED NET ASSETS | | |
| Current liabilities: | | |
| Accounts payable and accrued expenses | \$ 13,000 | \$ 44,203 |
| Accrued payroll and payroll taxes | 82,225 | 48,575 |
| Refundable advances | <u>1,351</u> | <u>2,309</u> |
| Total current liabilities | 96,576 | 95,087 |
| Unrestricted net assets | <u>1,574,669</u> | <u>415,863</u> |
| TOTAL LIABILITIES AND UNRESTRICTED NET ASSETS | <u><u>\$ 1,671,245</u></u> | <u><u>\$ 510,950</u></u> |

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

BROOKLYN PROSPECT CHARTER SCHOOL
(Not-For-Profit Corporation)
STATEMENTS OF ACTIVITIES

| | For the year ended June 30, 2011 | For the period from July 28, 2008 (inception) to June 30, 2010 |
|---|--|---|
| Revenue and support: | | |
| State and local per pupil operating revenue | \$ 3,263,928 | \$ 1,531,908 |
| State grants | 14,567 | 152,851 |
| Federal grants | 174,308 | 513,354 |
| Contributions | - | 126,150 |
| Donated goods and services | 243,953 | 104,489 |
| Other income | 7,047 | 6,560 |
| Total revenue and support | <u>3,703,803</u> | <u>2,435,312</u> |
| Expenses: | | |
| Program services | | |
| Regular education | 1,484,997 | 1,008,051 |
| Special education | 371,247 | 252,013 |
| Total program services | <u>1,856,244</u> | <u>1,260,064</u> |
| Supporting services | | |
| Management and general | 620,643 | 655,390 |
| Fundraising | 68,110 | 103,995 |
| Total expenses | <u>2,544,997</u> | <u>2,019,449</u> |
| Change in unrestricted net assets | 1,158,806 | 415,863 |
| Unrestricted net assets - beginning of period | <u>415,863</u> | <u>-</u> |
| Unrestricted net assets - end of period | <u>\$ 1,574,669</u> | <u>\$ 415,863</u> |

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

BROOKLYN PROSPECT CHARTER SCHOOL
(Not-For-Profit Corporation)
STATEMENT OF CASH FLOWS

| | For the year ended June 30, 2011 | For the period from July 28, 2008 (inception) to June 30, 2010 |
|---|--|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Change in unrestricted net assets | \$ 1,158,806 | \$ 415,863 |
| Adjustments to reconcile change in unrestricted net assets to net cash provided by operating activities: | | |
| Depreciation and amortization | 37,639 | 17,270 |
| Loss on disposal of fixed asset | 985 | - |
| Decrease (Increase) in certain assets: | | |
| Grants and contract receivables | 68,715 | (86,154) |
| Prepaid expenses | (80,048) | (2,852) |
| Other current assets | (201,666) | - |
| Security deposit | (291,356) | - |
| Due from affiliate | 38,271 | (38,271) |
| (Decrease) Increase in certain liabilities: | | |
| Accounts payable and accrued expenses | (31,203) | 44,203 |
| Accrued payroll and payroll taxes | 33,650 | 48,575 |
| Refundable advances | (958) | 2,309 |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | <u>732,835</u> | <u>400,943</u> |
| CASH FLOWS FROM INVESTING ACTIVITY | | |
| Purchase of property and equipment | <u>(54,354)</u> | <u>(164,054)</u> |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | 678,481 | 236,889 |
| CASH AND CASH EQUIVALENTS - BEGINNING OF PERIOD | <u>236,889</u> | <u>-</u> |
| CASH AND CASH EQUIVALENTS - END OF PERIOD | <u>\$ 915,370</u> | <u>\$ 236,889</u> |

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

BROOKLYN PROSPECT CHARTER SCHOOL
(Not-For-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
June 30, 2011 and 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 prepares students for success as global citizens and helps students develop the love of learning that provides the foundation for personal and professional success. In the 2010-2011 academic year, the School operated classes for approximately 200 students in grades six and seven.

The New York City Department of Education ("NYCDOE") provided free classroom space to the School. The School is responsible for extended use of the building beyond the regular opening hours. On December 3, 2010, the School signed a long term lease that will provide a fully dedicated, purpose built, ground up, permanent facility for the School starting with the 2013-2014 school year. The School will be in an interim facility for the 2011-2012 and 2012-2013 school years.

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 is 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 has 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). The School is subject to income taxes only on net unrelated business income. The School did not have any unrelated business income for the year end June 30, 2011 and for the period from July 28, 2008 (inception) to June 30, 2010

The School's accounting policy provides that a tax expense or benefit from an uncertain tax position may be recognized when it is more likely than not that the position will be sustained upon examination, including resolutions of any related appeals or litigation processes, based on the technical merits. The School has no uncertain tax positions resulting in an accrual of tax expense or benefit.

BROOKLYN PROSPECT CHARTER SCHOOL
(Not-For-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
June 30, 2011 and 2010

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

Basis of Presentation

The financial statement presentation follows the requirements of the Financial Accounting Standards Board ("FASB") in its Accounting Standards Codification ("ASC") No. 958-205 which provides guidance for the classification of net assets. The amounts for each of the three classes of net assets are based on the existence or absence of donor-imposed restrictions described as follows:

Unrestricted

Net assets of the School 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 School.

Temporarily Restricted

Net assets of the School 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 School. 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 as net assets released from restrictions.

Permanently Restricted

Net assets of the School 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 School has no temporarily or permanently restricted net assets at June 30, 2011.

Revenue and Support

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.

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.

BROOKLYN PROSPECT CHARTER SCHOOL
(Not-For-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
June 30, 2011 and 2010

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

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of 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 School considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Other current assets

Other current assets at June 30, 2011 consists of a security deposit and first month's rent on a temporary school facility which did not materialize. The School received a refund in July 2011.

Concentration of Credit Risk

Financial instruments which potentially subject the School to concentrations of credit risk are cash and cash equivalents. The School 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 School 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 School 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
(Not-For-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
June 30, 2011 and 2010

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

Comparative Financial Information

The accompanying statements of activities and functional expenses are presented with summarized comparative information. Such prior year information is not presented by net asset class in the statement of activities or by functional category in the statement of functional expenses. Accordingly, such information should be read in conjunction with the School's 2010 consolidated financial statements from which the summarized information was derived.

NOTE 2 - GRANTS AND CONTRACT RECEIVABLES

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

NOTE 3 - PROPERTY AND EQUIPMENT

Property and equipment consists of the following at June 30, 2011:

| | <u>2011</u> | <u>2010</u> |
|---|-------------------|-------------------|
| Computers and Equipment | \$ 192,139 | \$ 150,269 |
| Furniture and Fixtures | 11,268 | 6,816 |
| Software | 3,141 | 1,094 |
| Construction-in-progress | <u>10,875</u> | <u>5,875</u> |
| | 217,423 | 164,054 |
| Less Accumulated Depreciation and Amortization | <u>54,909</u> | <u>17,270</u> |
| | <u>\$ 162,514</u> | <u>\$ 146,784</u> |

Depreciation expense was \$37,639 and \$17,270 for the year ended June 30, 2011 and for the period from July 28, 2008 (inception) to June 30, 2010, respectively.

For the year ended June 30, 2011 the School disposed of a laptop resulting in a \$985 loss.

At June 30, 2011, construction-in-progress for the permanent facility 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 2013.

BROOKLYN PROSPECT CHARTER SCHOOL
(Not-For-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
June 30, 2011 and 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 financial statements. Accordingly, no amounts have been provided in the accompanying 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 School.

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 year ended June 30, 2011 and for the period from July 28, 2008 (inception) to June 30, 2010 amounted to \$37,560 and \$26,967 respectively.

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.

BROOKLYN PROSPECT CHARTER SCHOOL
(Not-For-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
June 30, 2011 and 2010

NOTE 9 - DONATED GOODS AND 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 School.

Individuals have provided legal services to the School at no charge. The value of these services meets the criteria for recognition in the financial statements and is recorded at fair value. For the year ended June 30, 2011 and for the period from July 28, 2008 (inception) to June 30, 2010, the value of such donated services amounted to \$235,638 and \$74,500 respectively.

For the year ended June 30, 2011, one entity donated Lacrosse equipment valued at \$8,315. For the period from July 28, 2008 (inception) to June 30, 2010, 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 statement of activities.

NOTE 10 - COMMITMENTS

In December 2010, the School entered into a lease agreement expiring June 30, 2032, with Fortune JD LLC to lease a new permanent facility in Brooklyn, New York. Under the terms of the lease, the School paid a security deposit in the amount of \$291,356 when the lease was signed. The School will begin paying rent for the new facility starting with the 2013-2014 school year.

Future minimum lease payments are as follows:

| | | | |
|----------------------|------------|----|----------------------|
| Year ending June 30, | 2012 | \$ | - |
| | 2013 | | - |
| | 2014 | | 800,040 |
| | 2015 | | 820,080 |
| | 2016 | | 1,523,112 |
| | Thereafter | | <u>23,609,032</u> |
| | | | <u>\$ 26,752,264</u> |

BROOKLYN PROSPECT CHARTER SCHOOL
(Not-For-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
June 30, 2011 and 2010

NOTE 11 - RELATED PARTY TRANSACTIONS

The School is an affiliate of Prospect Schools Inc., ("Prospect") a New York State not-for-profit corporation. Prospect provides financial support and other services to the School. For the year ended June 30, 2011 there were no transactions between Prospect and the School. For the period from July 28, 2008 (inception) to June 30, 2010, the School charged Prospect for operating expenses in the amount of \$11,879. At June 30, 2011 and 2010 the outstanding balance due from Prospect amounted to -0- and \$38,271 respectively.

For the period from July 28, 2008 (inception) to June 30, 2010, the Schools financial statements were prepared on a consolidated basis for reporting purposes based on common management, board of trustees and economic interest. Accordingly, the consolidated financial statements included the accounts of the School and Prospect. For the year ended June 30, 2011, consolidation was not required due to a non majority board member between the two entities.

NOTE 12 - SUBSEQUENT EVENT

On August 1, 2011, the School entered into a two year lease agreement, expiring June 2013, with Bishop Ford Central Catholic High School in Brooklyn New York to occupy a portion of the building on the 3rd floor. The School moved into this new interim facility on August 18, 2011. Future minimum payments under this contract for the two years amount to \$660,000.

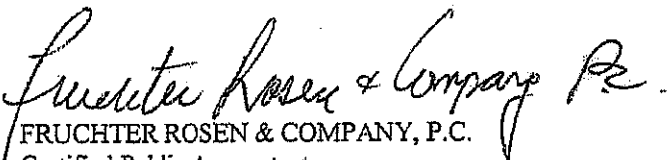
FRUCHTER ROSEN & COMPANY, P.C.
CERTIFIED PUBLIC ACCOUNTANTS
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INDEPENDENT AUDITORS' REPORT
ON SUPPLEMENTARY INFORMATION

TO THE BOARD OF TRUSTEES
BROOKLYN PROSPECT CHARTER SCHOOL

Our report on our audit of the financial statements of Brooklyn Prospect Charter School (not-for-profit corporation) for June 30, 2011 and 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 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 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.


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

New York, New York
September 9, 2011

BROOKLYN PROSPECT CHARTER SCHOOL
(Not-For-Profit Corporation)
SCHEDULE OF FUNCTIONAL EXPENSES

| | For the year ended June 30, 2011 | | | | For the period from July 28, 2008 (inception) to June 30, 2010 |
|-------------------------------------|----------------------------------|----------------------|--------------------|------------------------------|---|
| | Regular Education | Special Education | Program Service | Management and General | Total |
| Salaries | \$ 1,031,655 | \$ 257,914 | \$ 1,289,569 | \$ 243,922 | \$ 1,583,688 |
| Benefits and taxes | 191,093 | 47,773 | 238,866 | 47,184 | 294,897 |
| Office expenses | 46,208 | 11,552 | 57,760 | 25,302 | 84,085 |
| Accounting and auditing | - | - | - | 21,490 | 21,490 |
| Donated legal fees | - | - | - | 235,638 | 235,638 |
| Donated professional services | - | - | - | - | - |
| Payroll service | 25,829 | 6,457 | 32,286 | 6,377 | 39,859 |
| Accountability consultant | 8,000 | 2,000 | 10,000 | 10,000 | 20,000 |
| General & administrative consultant | 289 | 72 | 361 | 1,085 | 1,446 |
| Program curriculum development | 3,324 | 831 | 4,155 | - | 4,155 |
| Other professional fees | 53,906 | 13,476 | 67,382 | 8,939 | 76,657 |
| Professional development | 4,533 | 1,133 | 5,666 | 6,550 | 15,466 |
| Marketing | 1,637 | 409 | 2,046 | 404 | 2,526 |
| Parent teacher organization | - | - | - | 531 | 2,126 |
| Curriculum and classroom | 82,317 | 20,579 | 102,896 | 138 | 103,034 |
| Facility expense | - | - | - | - | - |
| Technology | 5,530 | 1,382 | 6,912 | 5,328 | 12,410 |
| Miscellaneous | 6,286 | 1,571 | 7,857 | 1,733 | 9,881 |
| Depreciation and amortization | 24,390 | 6,098 | 30,488 | 6,022 | 37,639 |
| Total expenses | \$ 1,484,997 | \$ 371,247 | \$ 1,856,244 | \$ 620,643 | \$ 2,544,997 |
| | | | | | \$ 68,110 |
| | | | | | \$ 2,019,449 |

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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

We have audited the financial statements of Brooklyn Prospect Charter School ("the School") as of June 30, 2011 and 2010, and have issued our report thereon dated September 9, 2011. 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 School's internal control over financial reporting 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 School's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the School'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 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.

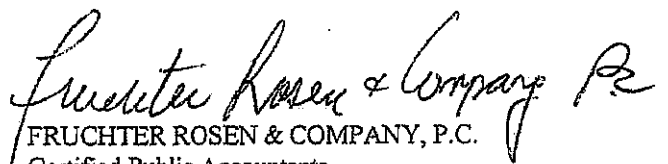
TO THE BOARD OF TRUSTEES OF
BROOKLYN PROSPECT CHARTER SCHOOL

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School'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 the management of the Organization in a separate letter dated September 9, 2011.

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 School 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
September 9, 2011