

McGladrey & Pullen

Certified Public Accountants

**Bronx Preparatory Charter School
and Affiliate**

Consolidated Financial Statements

June 30, 2008

BRONX PREPARATORY CHARTER SCHOOL AND AFFILIATE

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June 30, 2008

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McGladrey & Pullen

Certified Public Accountants

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 (the "Organization") as of June 30, 2008, 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 consolidated financial statements of the Organization as of and for the year ended June 30, 2007, which were audited by Goldstein Golub Kessler LLP ("GGK"), independent accountants, certain of whose partners became partners of McGladrey & Pullen, LLP on October 3, 2007. GGK's report, dated October 19, 2007, expressed an unqualified opinion on these 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, 2008, 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.

Our audit was conducted for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The supplementary information contained on pages 20 and 21 is presented for purposes of additional analysis and is not a required part of the basic consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic consolidated financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report, dated October 23, 2008, 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.

McGladrey & Pullen, LLP

New York, New York
October 23, 2008

BRONX PREPARATORY CHARTER SCHOOL AND AFFILIATE

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

June 30,	2008	2007
ASSETS		
Cash	\$ 2,747,552	\$ 2,638,995
Restricted Cash	195,000	200,000
Contributions and Other Receivables	1,018,159	1,005,456
Prepaid Expenses and Other Assets	26,164	124,954
Property and Equipment, net	18,973,395	18,874,016
Total Assets	\$22,960,270	\$22,843,421
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	\$ 341,111	\$ 216,325
Note payable	3,664,916	3,776,255
Total liabilities	4,006,027	3,992,580
Net Assets:		
Unrestricted	17,618,482	17,104,996
Temporarily restricted	1,335,761	1,745,845
Total net assets	18,954,243	18,850,841
Total Liabilities and Net Assets	\$22,960,270	\$22,843,421

See Notes to Consolidated Financial Statements

BRONX PREPARATORY CHARTER SCHOOL AND AFFILIATE

CONSOLIDATED STATEMENT OF ACTIVITIES

(with summarized financial information for the year ended June 30, 2007)

Year ended June 30,	2008			2007
	Unrestricted	Temporarily Restricted	Total	Summarized Comparative Information Total
Operating revenue:				
State and local per pupil operating revenue	\$ 6,719,888		\$ 6,719,888	\$ 5,702,690
Government grants and contracts	706,164		706,164	515,807
Total operating revenue	7,426,052		7,426,052	6,218,497
Expenses:				
Program services:				
Academic program	7,236,519		7,236,519	6,397,468
Enrichment programs	1,027,971		1,027,971	831,868
General and administrative	405,562		405,562	404,320
Total operating expenses	8,670,052		8,670,052	7,633,656
Deficit on school operations from government funding	(1,244,000)		(1,244,000)	(1,415,159)
Support and other revenue:				
Contributions:				
Foundations	701,893	\$ 72,619	774,512	1,945,926
Individuals	203,809	227,297	431,106	400,151
Corporations	15,807		15,807	84,462
Government grants - purchase of land				350,000
Benefit event, net of expenses of \$22,297 and \$17,446, respectively	50,838		50,838	67,163
Interest income	112,875		112,875	91,342
Miscellaneous income	64,794		64,794	8,957
Net assets released from time restrictions	710,000	(710,000)		
Fund-raising expenses	(102,530)		(102,530)	(100,942)
Total support and other revenue	1,757,486	(410,084)	1,347,402	2,847,059
Change in net assets	513,486	(410,084)	103,402	1,431,900
Net assets at beginning of year	17,104,996	1,745,845	18,850,841	17,418,941
Net assets at end of year	\$17,618,482	\$1,335,761	\$18,954,243	\$18,850,841

See Notes to Consolidated Financial Statements

BRONX PREPARATORY CHARTER SCHOOL AND AFFILIATE

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES (with summarized financial information for the year ended June 30, 2007)

Year ended June 30,	2008					2007	
	Program Services			Supporting Services		Summarized Comparative Financial Information Total	
	Academic Program	Enrichment Programs	Total Programs	General and Administrative	Fund-raising	Total	
Personnel expenses:							
Salaries - educators	\$3,948,083	\$ 439,778	\$4,387,861			\$4,387,861	\$3,822,146
Salaries - administrators	134,343		134,343	\$239,831	\$ 63,257	437,431	422,054
Salaries - facilities	143,043	15,810	158,853	6,021	1,658	166,532	154,352
Payroll taxes and employee benefits	967,925	93,907	1,061,832	35,761	9,850	1,107,443	881,612
Total personnel expense	5,193,394	549,495	5,742,889	281,613	74,765	6,099,267	5,280,164
Student meal program	228,271		228,271			228,271	190,223
Classroom books and supplies	230,758		230,758			230,758	211,466
Computer instructional support	20,000		20,000			20,000	20,000
Office expenses	31,535	3,485	35,020	12,500	7,460	54,980	36,815
Student events		94,616	94,616			94,616	40,948
Audit/bank/payroll/legal fees	32,805	3,626	36,431	50,065	380	86,876	55,099
Insurance	83,947	9,279	93,226	3,534	973	97,733	112,017
Utilities	188,898	20,879	209,777	7,950	2,190	219,917	225,700
Equipment and furnishings	193,540	20,734	214,274	7,629	2,175	224,078	156,171
Facility maintenance and security	223,077	24,657	247,734	10,914	2,586	261,234	253,260
Rent							30,000
Interest on facility loan	223,460	24,699	248,159	9,405	2,591	260,155	267,705
Enrichment fees/curriculum materials		78,911	78,911			78,911	27,409
Student field lessons		89,373	89,373			89,373	101,623
College preparation program		35,150	35,150			35,150	36,491
Parent programs		4,920	4,920			4,920	
Depreciation and amortization	586,834	68,147	654,981	21,470	9,410	685,861	689,004
Loss on sale of donated securities				482		482	503
Total	\$7,236,519	\$1,027,971	\$8,264,490	\$405,562	\$102,530	\$8,772,582	\$7,734,598

See Notes to Consolidated Financial Statements

BRONX PREPARATORY CHARTER SCHOOL AND AFFILIATE

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended June 30,	2008	2007
Cash flows from operating activities:		
Change in net assets	\$ 103,402	\$ 1,431,900
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	685,861	689,004
Donated securities, net	(41,010)	(51,243)
Contributed legal services, capitalized		(66,000)
Changes in operating assets and liabilities:		
Decrease in restricted cash	5,000	114,551
Increase in contributions and other receivables	(12,703)	(188,259)
Decrease in prepaid expenses and other assets	98,790	4,449
Increase (decrease) in accounts payable and accrued expenses	124,786	(224,730)
Net cash provided by operating activities	964,126	1,709,672
Cash flows from investing activities:		
Proceeds from sale of investments	41,010	51,243
Purchases of property and equipment	(785,240)	(208,835)
Net cash used in investing activities	(744,230)	(157,592)
Cash used in financing activity - repayment of note payable	(111,339)	(103,833)
Net increase (decrease) in cash	108,557	1,448,247
Cash at beginning of year	2,638,995	1,190,748
Cash at end of year	\$2,747,552	\$ 2,638,995
Supplemental schedule of noncash investing activities:		
Interest paid on loan	\$ 260,155	\$ 267,705
Contributed legal services, capitalized	\$ - 0 -	\$ 66,000

See Notes to Consolidated Financial Statements

BRONX PREPARATORY CHARTER SCHOOL AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS June 30, 2008

1. **PRINCIPAL
BUSINESS
ACTIVITY AND
SUMMARY OF
SIGNIFICANT
ACCOUNTING
POLICIES:**

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 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 for a full five-year term. The School was established to prepare underserved middle and high school students for higher education, civic involvement and lifelong success through a structured, caring environment of high academic expectations.

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. Friends ran the capital campaign and managed the development and construction of a new building for the School on land leased by Friends from the New York City Economic Development Corporation. Friends had the right to acquire the land as of or after March 15, 2005 for \$447,500, adjusted for price index escalations subsequent to March 15, 2005, plus any outstanding amounts owed under the lease agreement. Friends sublet the land and new building facility to the School. The School purchased the land in July 2007 and subsequently transferred the land, at cost, to Friends.

In fiscal year 2008, the School operated classes for students in grades 5 through 12.

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.

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, 2008 and 2007, the Organization had no permanently restricted net assets.

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.

BRONX PREPARATORY CHARTER SCHOOL AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS June 30, 2008

Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently 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 years ended June 30, 2008 and 2007, the value of such contributed services amounted to approximately \$16,000 and \$76,000, respectively, which are included as contributions in the accompanying financial statements.

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.

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, including funds obligated for building construction are recognized when qualifying expenditures are incurred. Cash received in excess of expenditures incurred is recognized as refundable advances.

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.

The Organization maintains cash in bank deposit accounts which, at times, may exceed federally insured limits. The Organization has not experienced any losses in such accounts.

Property and equipment is recorded at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates by management. Actual results could differ from these estimates.

BRONX PREPARATORY CHARTER SCHOOL AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS June 30, 2008

The consolidated financial statements include certain prior-year summarized comparative information in total but not by net asset class and functional classification. 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, 2007, from which the summarized information was derived.

Certain 2007 amounts have been reclassified to conform to the 2008 financial statement presentation. The reclassifications have no effect on the 2007 total assets, liabilities, net assets, revenue, expenses and changes in net assets.

In February 2007, the Financial Accounting Standards Board (the "FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* ("SFAS No. 159"). SFAS No. 159 permits entities to choose to measure financial instruments and certain other items at fair value that are not currently required to be measured at fair value. The objective of SFAS No. 159 is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. This Statement is effective for fiscal years beginning after November 15, 2007. The Organization is currently assessing the potential effect of SFAS No. 159 on its financial position, results of operations and cash flows. The adoption of SFAS No. 159 is not expected to have a material impact on the Organization's financial position, results of operations or cash flows.

In July 2006, the FASB issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109* ("FIN 48"). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB Statement No. 109, *Accounting for Income Taxes*. FIN 48 prescribes a comprehensive model for recognizing, measuring, presenting and disclosing in the financial statements tax positions taken or expected to be taken on a tax return. FIN 48 is effective for fiscal years beginning after December 15, 2007. The cumulative effect of applying the provisions of FIN 48, if any, will be reported as an adjustment to the opening balance of retained earnings for the fiscal year of adoption. The adoption of FIN 48 is not expected to have a material impact on the Organization's financial position, results of operations or cash flows.

In August 2008, the FASB issued FASB Staff Position No. FAS 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act* (the "UPMIFA"), and *Enhanced Disclosures for All Endowment Funds* ("FSP FAS 117-1") to provide guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the UPMIFA. The FSP also requires additional disclosures about an organization's endowment (both donor-restricted and board-designated funds), whether or not the organization is subject to the UPMIFA. The provisions of the FSP are effective for fiscal years ending after December 15, 2008. The adoption of FSP FAS 117-1 is not expected to have a material impact on the Organization's financial position, results of operations or cash flows.

BRONX PREPARATORY CHARTER SCHOOL AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS June 30, 2008

2. **RESTRICTED CASH:** Restricted cash consists of reserve account funds held by NCB Capital Corporation ("NCB") in compliance with the loan agreement and escrow funds held by a third party.

3. **CONTRIBUTIONS AND OTHER RECEIVABLES:** Contributions and other receivables include receivables from government contracts and unconditional promises to give, and are due as follows:

June 30,	2008	2007
Receivable due in less than one year	\$ 793,243	\$ 841,385
Receivable due in one to five years, discounted at 5%	224,916	164,071
	\$1,018,159	\$1,005,456

All receivables are deemed collectible. Accordingly, no provision for uncollectible accounts is included in the consolidated financial statements.

4. **PROPERTY AND EQUIPMENT, NET:** Property and equipment, net, at cost, consists of the following:

June 30,	2008	2007	Estimated Useful Life
Computer equipment and software	\$ 492,578	\$ 450,960	3 to 5 years
Furniture and fixtures	257,697	206,847	7 years
Musical instruments	109,664	109,664	7 years
Office equipment	80,695	79,184	7 years
Land at 3872 Third Avenue ^(a)	658,614		
Building and improvements ^(b)	19,635,846	19,603,202	23 to 39 years
Modular classrooms ^(c)		228,476	5 to 10 years
	21,235,094	20,678,333	
Less accumulated depreciation and amortization	(2,261,699)	(1,804,317)	
	\$18,973,395	\$18,874,016	

(a) The land on which the School building was constructed was being leased at an annual amount of \$30,000 by Friends from the New York City Economic Development Corporation through fiscal 2007. In fiscal 2007, the School obtained a grant to purchase the land and exercised the option to purchase the land in July 2007. The School subsequently transferred the land to Friends on the same day that it was acquired from the New York City Economic Development Corporation.

BRONX PREPARATORY CHARTER SCHOOL AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS June 30, 2008

(b) Friends subleases the land and building to the School through November 30, 2027, commencing on the date Friends substantially completed Phase I of the construction of the building and obtained a temporary certificate of occupancy. The School is required to make construction payments to Friends based on its respective fund-raising efforts for construction of the building and related costs and expenses or, at Friends' discretion, pay certain contractors directly for construction-related expenditures.

(c) In September 2007, Friends sold the remaining modular unit on the original school site at 1508 Webster Avenue to the Carl Icahn Charter School for a cash price of \$40,000. The unit was fully depreciated. The gain of \$40,000 is included in miscellaneous income.

5. **TAX STATUS:** 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").

6. **NOTE PAYABLE:** In March 2005, the Organization converted its construction loan with NCB 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, 2008, this loan had a balance of \$3,664,916. The future minimum principal payments on this loan are as follows:

Fiscal year ending June 30,	Amount
2009	\$ 119,388
2010	128,018
2011	137,273
2012	3,280,237
	<hr/>
	\$3,664,916

7. **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 2008 consisted of satisfaction of time restriction of \$250,000 and purpose restriction (purchase of land) of \$500,000.

8. **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.

BRONX PREPARATORY CHARTER SCHOOL AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2008

9. **EMPLOYEE
BENEFIT PLAN:**

The School maintains a defined contribution 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, 2008 and 2007 approximated \$173,000 and \$157,000, respectively. An officer and a member of the board of directors of the School serve as trustees of the Plan.

McGladrey & Pullen

Certified Public Accountants

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 and Affiliate (the "Organization") as of and for the year ended June 30, 2008, and have issued our report thereon dated October 23, 2008. 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 School's internal control over financial reporting.

A *control deficiency* 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 misstatements on a timely basis. A *significant deficiency* is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a material misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over financial reporting that might be 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 23, 2008.

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 23, 2008

McGladrey & Pullen

Certified Public Accountants

Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133 and on the Schedule of Expenditures of Federal Awards

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 are applicable to its major federal program for the year ended June 30, 2008. The School's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program 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 the School's compliance with those requirements.

In our opinion, the School complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2008.

Internal Control Over Compliance - The 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 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 *control deficiency* in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be 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. However, we noted certain matters that we reported to management in a separate letter dated October 23, 2008.

Schedule of Expenditures of Federal Awards - We have audited the basic financial statements of the School as of and for the year ended June 30, 2008, and have issued our report thereon dated October 23, 2008. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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 23, 2008

BRONX PREPARATORY CHARTER SCHOOL
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

June 30, 2008

Federal Grantor/Pass Through Agency/Program Title	CFDA No.	Federal Expenditures*
U.S. Department of Education pass through the New York State Education Department:		
Grants to Local Educational Agencies (Title IA)	84.010	\$364,688
Improving Teacher Quality State Grants (Title IIA)	84.367	36,226
Safe and Drug Free Schools and Communities (Title IVA)	84.186	4,925
State Grants for Innovative Program (Title VA)	84.298	2,660
U.S. Department of Agriculture pass through the New York State Education Department:		
Child Nutrition Cluster	10.553 and 10.555	247,855
Total expenditures of federal awards		\$656,354

*Expenditures are recognized on the accrual basis of accounting.

BRONX PREPARATORY CHARTER SCHOOL AND AFFILIATE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

June 30, 2008

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 Program:

CFDA Number
84.010

Program Name or Cluster
Grants to Local Educational
Agencies
(Title IA)

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

June 30, 2008

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

June 30, 2008

	Bronx Preparatory Charter School	Friends of Bronx Preparatory Charter School, Inc.	Eliminations	Total
ASSETS				
Cash	\$ 762,560	\$ 1,984,992		\$ 2,747,552
Restricted Cash		195,000		195,000
Contributions and Other Receivables	740,675	277,484		1,018,159
Due from Affiliate		59,513	\$(59,513)	
Prepaid Expenses and Other Assets	26,164			26,164
Property and Equipment, net	1,667,887	17,305,508		18,973,395
Total Assets	\$3,197,286	\$19,822,497	\$(59,513)	\$22,960,270
LIABILITIES AND NET ASSETS				
Liabilities:				
Accounts payable and accrued expenses	\$ 302,716	\$ 38,395		\$ 341,111
Note payable		3,664,916		3,664,916
Due to affiliate	59,513		\$(59,513)	
Total liabilities	362,229	3,703,311	(59,513)	4,006,027
Net Assets:				
Unrestricted	2,510,057	15,083,341		17,593,398
Temporarily restricted	325,000	1,035,845		1,360,845
Total net assets	2,835,057	16,119,186		18,954,243
Total Liabilities and Net Assets	\$3,197,286	\$19,822,497	\$(59,513)	\$22,960,270

BRONX PREPARATORY CHARTER SCHOOL AND AFFILIATE

SUPPLEMENTARY INFORMATION

CONSOLIDATING STATEMENT OF ACTIVITIES

Year ended June 30, 2008

	Bronx Preparatory Charter School	Friends of Bronx Preparatory Charter School, Inc.	Eliminations	Total
Operating revenue:				
State and local per pupil operating revenue	\$6,719,888			\$ 6,719,888
Government grant	706,164			706,164
Total operating revenue	7,426,052			7,426,052
Expenses:				
Program services:				
Academic program	7,071,530	\$ 869,089	\$(704,100)	7,236,519
Enrichment programs	934,322	93,649		1,027,971
General and administrative	294,564	110,998		405,562
Total operating expenses	8,300,416	1,073,736	(704,100)	8,670,052
Deficit on school operations from government funding	(874,364)	(1,073,736)	704,100	(1,244,000)
Support and other revenue:				
Contributions:				
Foundations	565,412	209,100		774,512
Individuals	43,450	387,656		431,106
Corporations	6,607	9,200		15,807
Government grant land				
Benefit event, net	21,210	29,628		50,838
Interest income	46,257	66,618		112,875
Miscellaneous income	6,805	762,089	(704,100)	64,794
Fund-raising expenses	(66,222)	(36,308)		(102,530)
Total support and other revenue	623,519	1,427,983	(704,100)	1,347,402
Change in net assets	(250,845)	354,247		103,402
Net assets at beginning of year	3,085,902	15,764,939		18,850,841
Net assets at end of year	\$2,835,057	\$16,119,186	\$ - 0 -	\$18,954,243

McGladrey & Pullen

Certified Public Accountants

Bronx Preparatory Charter School and Affiliate

Report to Management

June 30, 2008

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McGladrey & Pullen

Certified Public Accountants

Audit Committee of the Board of Directors and the Management
Bronx Preparatory Charter School and Affiliate
3872 Third Avenue
Bronx, New York 10457

Dear Committee Members:

In planning and performing our audit of the consolidated financial statements of Bronx Preparatory Charter School (the "School") and Affiliate ("Friends") (collectively referred to as the "Organization") as of and for the year ended June 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered the Organization's internal control over financial reporting ("internal control") as 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 Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify deficiencies in internal control that might be significant deficiencies or material weaknesses.

A control deficiency 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 misstatements on a timely basis. A deficiency in design exists when a control necessary to meet the control objective is missing, or when an existing control is not properly designed so that even if the control operates as designed, the control objective is not always met. A deficiency in operation exists when a properly designed control does not operate as designed or when the person performing the control does not possess the necessary authority or qualifications to perform the control effectively.

A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the Organization's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Organization's financial statements that is more than inconsequential will not be prevented or detected by the Organization's internal control.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Organization's internal control.

The control deficiencies we have identified are described in the attached Exhibit I. We have determined that the control deficiency we identified in Exhibit I does not constitute significant deficiency or material weakness.

Management's responses to the control deficiencies identified in our audit have not been subjected to the auditing procedures applied in the audit of the consolidated financial statements and, accordingly, we express no opinion on them.

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

We would be pleased to discuss these comments with you at greater length and assist you in the implementation of any of our recommendations should you so desire.

We appreciate the cooperation and assistance we received during the course of our audit.

Very truly yours,

McGladrey & Pullen, LLP

New York, New York
October 23, 2008



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EXHIBIT I - Current-Year Recommendation

A. Documentation of Employee Time and Effort

Observation

During the current fiscal year, Bronx Preparatory Charter School (the "School") spent approximately \$656,000 of federal award funds, thereby meeting the threshold for an OMB Circular A-133 Single Audit. About \$365,000 of the total federal expenditures were for the School's Title IA (Grants to Local Agencies - targeted assistance) Program under CFDA 84.010. Of the total \$365,000, approximately \$348,000 or 95% were for allocated salaries of certain educators.

Pursuant to the allowable costs requirements of the Title IA grant and OMB Circular A-87, Attachment B, paragraphs 8.h(4) and (5), employees who work on multiple activities or on activities funded from other revenue sources must maintain time and effort distribution records which must: (a) reflect an after-the-fact distribution of the actual activity of each employee; (b) account for the total activity for which each employee is compensated; (c) be prepared at least monthly and must coincide with one or more pay periods; and (d) must be signed by the employee.

During the audit, we noted that the salaries charged against the Title IA grant ranged from 5% to 50% of certain educators' salaries cost. We were able to determine the accuracy of the amount of salaries charged to the grant based on the actual amount paid to the educators and to verify that those charges were covered by the grant budget. However, the School was not able to provide us with individual time records of those employees because, as a policy, the School does not require time sheets of salaried employees. As an alternative, the School provided us with a documentation of the class attendance/schedule of the educators for the program funded by the Title IA grant. Such schedule showed the time spent by the educators on the Title IA program, which approximates the actual charges of salaries on the grant.

Recommendation

Since the School is substantially funded by federal, state and local government cost-reimbursement grants and contracts, we recommend that the School requires all of its employees to submit time records that meet the above requirements of OMB Circular A-87.

Management's Response

Management acknowledges that under the terms of the grant for 2007-2008, it would have been preferable for the School to document time and effort through the use of time sheets. Beginning in 2008-2009, Bronx Preparatory Charter School's Title I program is School-wide, which has different implications for record keeping, and management will ensure that the time and record keeping will comply with the applicable requirements of the Title I grant.

- EXHIBIT II - Status of Implementation of Prior-Year Recommendations

We followed up on the status of implementation of the recommendations contained in the report to management dated October 19, 2007 of Goldstein Golub Kessler LLP in connection with the audit of the Organization's June 30, 2007 financial statements. The results of this follow up is summarized below.

A. Financial Accounting and Reporting

Recommendation

There should be periodic review and analysis of significant accounts during the course of the year so that errors are promptly detected and corrected. This will enhance the reliability of the Organization's financial records, ensure the accuracy of interim reporting and facilitate the timely preparation of financial statements at year-end.

Current-Year Status

No significant audit adjustments were made to the 2008 trial balance that was provided by management to begin our audit. This indicates that management has been performing periodic review and reconciliation of significant financial statement account balances.

B. Maintenance of Student and Personnel Files

Recommendation

The School should ensure that adequate documentation related to student eligibility and personnel qualification are always kept on file. Student and personnel files should be reviewed and missing documentation should be obtained.

Current-Year Status

Following is the summary of exceptions noted in our inspection of student and personnel files:

- Of the 23 student folders we inspected, six did not have proof of address and three did not have birth certificates.
- No significant exceptions were noted in our inspection of 20 active employee folders.

Management's Response

Bronx Preparatory Charter School has clear guidelines for student records and requires all entering student's to submit proof of address and birth certificates. Valiant effort has been put forth to reduce the number of continuing students whose folders remain incomplete from last year when, out of 30 inspected folders, 24 did not have proof of address and 20 did not have birth certificates. Management understands that it remains a priority to obtain all remaining documentation of address and birth certificates.