

LEADERSHIP PREPARATORY CHARTER SCHOOL

BROOKLYN, NEW YORK

AUDITED FINANCIAL STATEMENTS

**REPORT REQUIRED BY
GOVERNMENT AUDITING STANDARDS**

AND

INDEPENDENT AUDITORS' REPORTS

JUNE 30, 2008

(With Comparative Totals for 2007)

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LEADERSHIP PREPARATORY CHARTER SCHOOL
BROOKLYN, NEW YORK

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INDEPENDENT AUDITORS' REPORT

Board of Trustees
Leadership Preparatory Charter School

We have audited the accompanying statement of financial position of Leadership Preparatory Charter School as of June 30, 2008, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the Charter School'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 financial statements of Leadership Preparatory Charter School as of June 30, 2007 and for the period from December 11, 2005 (date of inception) to June 30, 2007 and, in our report dated October 12, 2007, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 financial statements referred to above present fairly, in all material respects, the financial position of Leadership Preparatory Charter School as of June 30, 2008, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 10, 2008 on our consideration of Leadership Preparatory Charter School's internal control over financial reporting and our tests of its 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.

Mengel, Metzger, Barr & Co. LLP

Rochester, New York
October 10, 2008

LEADERSHIP PREPARATORY CHARTER SCHOOL

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2008

(With Comparative Totals for 2007)

<u>ASSETS</u>	<u>June 30,</u>	
	<u>2008</u>	<u>2007</u>
<u>CURRENT ASSETS</u>		
Cash and cash equivalents	\$ 524,395	\$ 484,927
Grants and other receivables	365,119	9,822
Prepaid expenses and other current assets	18,218	49,267
TOTAL CURRENT ASSETS	907,732	544,016
<u>PROPERTY AND EQUIPMENT, net</u>	461,331	111,852
TOTAL ASSETS	<u>\$ 1,369,063</u>	<u>\$ 655,868</u>
<u>LIABILITIES AND NET ASSETS</u>		
<u>CURRENT LIABILITIES</u>		
Accounts payable and accrued expenses	\$ 72,480	\$ 118,294
Deferred revenue	-	100,000
TOTAL CURRENT LIABILITIES	72,480	218,294
<u>NET ASSETS, unrestricted</u>		
Designated for building fund	550,000	150,000
Undesignated	746,583	287,574
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,369,063</u>	<u>\$ 655,868</u>

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

LEADERSHIP PREPARATORY CHARTER SCHOOL

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

YEAR ENDED JUNE 30, 2008
(With Comparative Totals for 2007)

	Year ended June 30, 2008	Period from December 11, 2005 (date of inception) to June 30, 2007
Operating revenue and support:		
State and local per pupil operating revenue	\$ 1,907,451	\$ 1,182,735
Government grants	654,099	472,382
Contributions	510,515	560,075
Other income	17,940	13,098
TOTAL OPERATING REVENUE AND SUPPORT	<u>3,090,005</u>	<u>2,228,290</u>
Expenses:		
Program services - education	1,963,958	1,554,223
General and administrative	267,038	236,493
TOTAL EXPENSES	<u>2,230,996</u>	<u>1,790,716</u>
CHANGE IN NET ASSETS	859,009	437,574
Unrestricted net assets at beginning of year	<u>437,574</u>	<u>-</u>
UNRESTRICTED NET ASSETS AT END OF YEAR	<u>\$ 1,296,583</u>	<u>\$ 437,574</u>

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

LEADERSHIP PREPARATORY CHARTER SCHOOL

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2008
(With Comparative Totals for 2007)

	Year ended June 30, 2008			Period from December 11, 2005 (date of inception) to June 30, 2007
	Program services - education	General and administrative	Total	Total
Salaries	\$ 1,094,640	\$ 125,248	\$ 1,219,888	\$ 861,387
Payroll taxes and employee benefits	187,395	21,448	208,843	140,881
Occupancy	150,000	-	150,000	150,000
Repairs and maintenance	39,422	-	39,422	62,564
Textbooks	19,729	-	19,729	96,494
Instructional supplies and assessments	91,048	-	91,048	87,717
Computer and technology support	7,727	-	7,727	38,301
Student enrichment and services	42,727	-	42,727	33,475
Professional development	72,695	-	72,695	86,198
Professional services	-	9,610	9,610	8,500
Telephone	-	19,736	19,736	16,974
Insurance	-	14,200	14,200	12,953
Management fees	173,773	30,666	204,439	128,033
Office expense	8,699	43,613	52,312	45,399
Depreciation	76,103	60	76,163	15,438
Other	-	2,457	2,457	6,402
	<u>\$ 1,963,958</u>	<u>\$ 267,038</u>	<u>\$ 2,230,996</u>	<u>\$ 1,790,716</u>

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

LEADERSHIP PREPARATORY CHARTER SCHOOL

STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2008
(With Comparative Totals for 2007)

	Year ended June 30, 2008	Period from December 11, 2005 (date of inception) to June 30, 2007
<u>CASH FLOWS - OPERATING ACTIVITIES</u>		
Change in net assets	\$ 859,009	\$ 437,574
Adjustments to reconcile change in net assets to net cash provided from operating activities:		
Depreciation	76,163	15,438
Changes in certain assets and liabilities affecting operations:		
Grants and other receivables	(355,297)	(9,822)
Prepaid expenses and other current assets	31,049	(49,267)
Accounts payable and accrued expenses	(45,814)	118,294
Deferred revenue	(100,000)	100,000
NET CASH PROVIDED FROM OPERATING ACTIVITIES	465,110	612,217
<u>CASH FLOWS - INVESTING ACTIVITIES</u>		
Purchases of property and equipment	(425,642)	(127,290)
NET CASH USED FOR INVESTING ACTIVITIES	(425,642)	(127,290)
NET INCREASE IN CASH AND CASH EQUIVALENTS	39,468	484,927
Cash and cash equivalents at beginning of year	484,927	-
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 524,395	\$ 484,927

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

LEADERSHIP PREPARATORY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008 AND 2007

NOTE A: THE CHARTER SCHOOL AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Charter School

Leadership Preparatory Charter School (the "Charter School"), is an educational corporation operating as a charter school in the borough of Brooklyn, New York City. On December 11, 2005, the Board of Regents of the University of the State of New York granted the Charter School a provisional charter valid for a term of five years and renewable upon expiration.

The Charter School's mission is to prepare students to enter, succeed in and graduate from outstanding college preparatory high schools and colleges.

Financial Statement presentation

The financial statements of the Charter School have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. The Charter School reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

These classes of net assets are defined as follows:

Permanently restricted – Net assets resulting from contributions and other inflows of assets whose use by the Charter School is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Charter School. The Charter School had no permanently restricted net assets at June 30, 2008 or 2007.

Temporarily restricted – Net assets resulting from contributions and other inflows of assets whose use by the Charter School is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Charter School pursuant to those stipulations. The Charter School had no temporarily restricted net assets at June 30, 2008 or 2007.

Unrestricted – The net assets over which the Governing Board has discretionary control to use in carrying on the Charter School's operations in accordance with the guidelines established by the Charter School. The Board may designate portions of the current unrestricted net assets for specific purposes, projects or investment.

The board of trustees has designated \$550,000 and \$150,000 as of June 30, 2008 and 2007, respectively, towards a building fund to be available to meet future needs of the Charter School.

Revenue and support recognition

Revenue from state and local governments resulting from the Charter 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 government grants and contracts are recorded by the Charter School when qualifying expenditures are incurred and billable.

LEADERSHIP PREPARATORY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2008 AND 2007

NOTE A: THE CHARTER SCHOOL AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES,
Cont'd

Contributions

Contributions received are recorded as unrestricted, temporarily, or permanently restricted support depending on the existence of any donor restrictions. A contribution that is received and expended in the same year for a specific purpose is classified as unrestricted revenue.

Contributions are recorded as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities and changes in net assets as net assets released from restrictions.

Cash and cash equivalents

The Charter School considers all highly liquid investments with maturities of three months or fewer to be cash equivalents. The Charter School maintains its cash in a bank deposit account and bank certificate of deposit which, at times, may exceed federally insured limits. Uninsured balances at June 30, 2008 approximated \$441,000. The Charter School has not experienced any losses in such accounts.

Grants and other receivables

Grants and other receivables are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts based on its assessment of the current status of individual receivables from grants, agencies and others. Balances that are still outstanding after management has used reasonable collection efforts are written off against the allowance for doubtful accounts. There was no allowance for doubtful accounts at June 30, 2008 or 2007.

Property and equipment

Property and equipment are recorded at cost. Depreciation is computed using the straight-line method on a basis considered adequate to depreciate the assets over their estimated useful lives, which range from three to seven years.

Deferred revenue

The Charter School records grant revenue as deferred revenue until it is expended for the purpose of the grant, at which time it is recognized as revenue.

Tax exempt status

The Charter School is a tax-exempt organization under section 501(c)(3) of the Internal Revenue Code and applicable state regulations and, accordingly, is exempt from federal and state taxes on income.

LEADERSHIP PREPARATORY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2008 AND 2007

NOTE A: THE CHARTER SCHOOL AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES,

Cont'd

Comparatives for period ended June 30, 2007

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Charter School's financial statements for the period from December 11, 2005 (date of inception) to June 30, 2007, from which the summarized information was derived.

Contributed services

The Charter School receives contributed services from volunteers to develop its academic program and to serve on the board of trustees. These services are not valued in the financial statements because they do not require "specialized skills" and would typically not be purchased if they were not contributed.

Use of estimates in the preparation of financial statements

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. Actual results could differ from those estimates.

NOTE B: RELATED PARTY TRANSACTIONS

Uncommon Schools, Inc. ("USI"), a not-for-profit organization dedicated to helping start and run charter schools, provides management and other administrative support services to the Charter School. The Charter School entered into a five year agreement with USI, dated September 26, 2006, under which the Charter School pays USI a service fee of a set percentage of the average number of students enrolled at the Charter School during the school year multiplied by the approved per pupil operating expenses for the school year, and a percentage of all other public entitlement funding receivable during the fiscal year, excluding in-kind contributions and funds from competitive public grants. This percentage is fixed at 10% for years 1-3, decreasing to 9.5% in year 4 and 9% in year 5. The fee incurred for the year ended June 30, 2008 and the period from December 11, 2005 (date of inception) to June 30, 2007 was \$204,439 and \$128,033, respectively. At June 30, 2008 and 2007 approximately \$8,600 and \$41,000, respectively, are included in accounts payable relating to USI.

The Charter School leases its facilities from USI for \$12,500 per month through June 30, 2008 renewable up to three times for a twelve month period each. Rent expense incurred during the year ended June 30, 2008 and during the period from December 11, 2005 (date of inception) to June 30, 2007 was \$150,000. Future minimum lease payments are \$150,000 for the year ending June 30, 2009.

LEADERSHIP PREPARATORY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2008 AND 2007

NOTE B: RELATED PARTY TRANSACTIONS, Cont'd

The Charter School is related to Friends of Leadership Prep, ("FOLP") through common Board representation and management. FOLP is an organization that was established to generate funding and encourage the development of charter schools. FOLP transferred \$25,000 and \$150,000 to the Charter School during the year ended June 30, 2008 and the period from December 11, 2005 (date of inception) to June 30, 2007, respectively. The facts exclude FOLP from provisions of Financial Accounting Standards Board Statement 136, "Transfers of Assets to a Not-For-Profit Organization or Charitable Trust that Raises or Holds Contributions for Others" which would otherwise require consolidation with the Charter School.

NOTE C: PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	<u>June 30,</u>	
	<u>2008</u>	<u>2007</u>
Furniture and fixtures	\$ 42,760	\$ 13,159
Computer software	189,431	105,931
Leasehold improvements	320,741	8,200
	<u>552,932</u>	<u>127,290</u>
Less accumulated depreciation and amortization	91,601	15,438
	<u>\$ 461,331</u>	<u>\$ 111,852</u>

NOTE D: COMMITMENT

The Charter School leases office equipment under a non-cancelable lease agreement expiring in June 2009. The future minimum payments on this agreement are as follows:

<u>Year ending June 30,</u>	<u>Amount</u>
2009	<u>\$ 9,531</u>

NOTE E: RETIREMENT PLAN

The Charter School sponsors a defined contribution 403(b) plan covering most employees. The Charter School matches employees' contributions up to 1% of gross payroll. The Charter School's total contribution to the Plan for the year ended June 30, 2008 and the period from December 11, 2005 (date of inception) to June 30, 2007 approximated \$9,800 and \$8,800, respectively.

LEADERSHIP PREPARATORY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2008 AND 2007

NOTE F: CONTINGENCY

Certain grants and contracts may be subject to audit by funding sources. Such audits might result in disallowance of costs submitted for reimbursement by the Charter School. Management is of the opinion that such 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 G: MAJOR GRANTOR

One federal start-up grant accounted for over ten percent of total operating revenue and support for the period from December 11, 2005 (date of inception) to June 30, 2007. For the year ended June 30, 2008, there were no grants over ten percent of total operating revenue and support.

NOTE H: CONCENTRATION

At June 30, 2008, approximately 83% of accounts receivable are due from New York State.

LEADERSHIP PREPARATORY CHARTER SCHOOL

REPORT REQUIRED BY GOVERNMENT AUDITING STANDARDS

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INDEPENDENT AUDITORS' 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

Board of Trustees
Leadership Preparatory Charter School

We have audited the financial statements of Leadership Preparatory Charter School as of June 30, 2008 and the year then ended, and have issued our report thereon dated October 10, 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 Leadership Preparatory Charter 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 Leadership Preparatory Charter School's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Charter 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 combination of control deficiencies, that adversely affects the Charter School's ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting principles generally accepted in the United States of America, such that there is more than a remote likelihood that a misstatement of the Charter School's financial statements that is more than inconsequential will not be prevented or detected by the Charter School'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 Charter School'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 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Leadership Preparatory Charter 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 management of Leadership Preparatory Charter School in a separate letter dated October 10, 2008.

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

Mengel, Metzger, Barr & Co. LLP

Rochester, New York
October 10, 2008



LEADERSHIP PREPARATORY
CHARTER SCHOOL

ADVISORY COMMENT LETTER

JUNE 30, 2008

OCT 8 1 2008

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October 10, 2008

To the Board of Trustees
Leadership Preparatory Charter School

In planning and performing our audit of the financial statements of Leadership Preparatory Charter School 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 Charter 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 Charter School's internal control. Accordingly, we do not express an opinion on the effectiveness of the Charter School's internal control.

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 combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

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

During the course of our audit of the financial statements of Leadership Preparatory Charter School as of and for the year ended June 30, 2008, we observed the Charter School's significant accounting policies and procedures and certain business, financial and administrative practices. As a result of our observations, we suggest you consider the following comments which we do not consider to be significant deficiencies or material weaknesses:

B

State Aid Reconciliation

We noted that it may be possible for the Charter School to continue to receive state aid for students who have left the school, whether due to oversight on the part of management while completing the year-end reconciliation or due to intentional misstatement. The procedures currently in place rely upon the Department of Education to detect students who are improperly included on the reconciliation and withhold the associated funding.

Recommendation

We recommend management implement a review and approval process for the year-end reconciliation prior to submission to the Department of Education. The review process will be most effective if completed by an individual familiar with the students in attendance during the applicable year.

Form 990

The Internal Revenue Service has released a new version of the Form 990 that will be effective for entities filing on or after December 31, 2008 with transitional relief for smaller organizations over a three year period. The stated goals of the revised Form 990 are to enhance transparency and promote compliance. Many questions require additional disclosures, explanations and descriptions and many questions focus on policies and procedures that may or may not be in place.

Recommendation

We recommend that management gain an understanding of the changes to the Form 990 to be prepared to gather the necessary information to be able to complete the revised Form.

Status of matters included in our letter as of June 30, 2007, dated October 12, 2007

As of June 30, 2007 we considered the following deficiency a material weakness in internal control:

Material auditor adjustment

A certain liability and expense were significantly misstated as a result of the Charter School's method of recording accounts payable. Accounts payable should be accrued and the expense should be recognized when the goods or services are received.

Recommendation

We recommend Charter School personnel review the procedures in place with regard to purchasing cutoff and determine if appropriate cutoff principles are being followed. According to Generally Accepted Accounting Principles, an expense and liability should be recognized when the goods or services are received regardless of the date of the purchase order.

Status as of June 30, 2008

During the current fiscal year management reviewed purchasing cutoff and made adjustments as appropriate, therefore no significant audit adjustments were necessary in this area.



As of June 30, 2007 we provided the following recommendations:

Capitalization of Property and Equipment

The cost of property and equipment, including installation and delivery costs, where applicable, should be capitalized and depreciated over their estimated useful lives. Due to prior auditor practices, the capitalization of property and equipment is currently being recorded on an annual basis at the end of the fiscal year.

Recommendation

We recommend the Charter School develop a capitalization policy whereby property and equipment purchases exceeding a certain dollar amount are capitalized if their useful life is greater than one year. In addition, we recommend the Charter School capitalize property and equipment as it is being purchased as opposed to preparing an entry on an annual basis. This would aid Management in generating more accurate monthly reports and would also improve the ability to monitor property and equipment purchases.

Status as of June 30, 2008

During the current fiscal year management implemented a capitalization policy however management continued to capitalize property and equipment on an annual basis. Based upon discussions with management, they believe that the current method allows for closer monitoring of property and equipment purchases made throughout the year by comparing amounts to the budget, which is prepared based upon cash expenditures rather than expenses incurred under generally accepted accounting principles.

Purchasing Procedures

In accordance with the Uncommon Schools, Inc. (USI) Operations Manual, obtaining multiple quotes for purchases over \$2,000 is generally required. During our audit, we noted that while management does attempt to obtain multiple bids for large purchases, this information is often not documented and retained with the completed purchase order.

Recommendation

We understand management is working to improve the competitive bidding process at the Charter School. We recommend documentation of multiple quotes be retained with the approved purchase order, including rationale for selecting a vendor other than the lowest bidder.

Status as of June 30, 2008

Based on discussions with management, it appears the Charter School is complying with their competitive bidding process, however documentation of this procedure is not regularly prepared. We recommend that written documentation of these actions be retained with the approved purchase order or payment.



Risk Assessment Standards

Statements on Auditing Standards 104-111 (Risk Assessment Standards) will be effective for the audits with periods beginning on or after December 15, 2006; therefore they will be effective for Leadership Preparatory Charter School for the year ended June 30, 2008. These standards require additional documentation relating to the Charter School and its operating environment, including its internal control structure. This additional documentation is required to identify the risks of material misstatement in relation to the financial statements and the controls in place to mitigate those risks. This is a significant change in the methodology of how audits have been planned for many organizations. In the past, it was common for audits of most organizations to be planned with a focus on substantive procedures with no testing or reliance on controls. Due to the fact that controls were not being relied upon, there was no requirement to document and assess the controls in place. Internal controls are now required to be documented and assessed on all audit engagements.

Recommendation

In order to prepare for these new auditing standards, we recommend the Charter School document the procedures and controls that are currently in place with regard to financial matters. By documenting these procedures and controls, it will allow the Charter School's financial statements to be audited in accordance with the new risk standards. In addition, the documentation will enable the Charter School to better understand its operating environment and internal controls so that risks can be assessed internally. This documentation may also serve as a guide in the orientation of new employees to help them better understand the operating environment of the Charter School.

Status as of June 30, 2008

During our audit, we noted that the Charter School documented its procedures and controls through the use of the Uncommon Schools, Inc. (USI) Operations Manual.

We believe that the implementation of these recommendations will improve the controls in place and efficiency of the Charter School's internal control.

This communication is intended solely for the information and use of Management, Finance Committee Members and Board Members and is not intended to be and should not be used by anyone other than these specified parties.

We appreciate the outstanding cooperation from your staff that our personnel received during the audit of the Charter School's financial statements. Should you have any questions or comments, please contact Michelle Cain or Jackie Boone.

Very truly yours,

Mengel, Metzger, Barr & Co. LLP

MENGEL, METZGER, BARR & CO. LLP

