

**McGladrey & Pullen**

Certified Public Accountants

**Bronx Preparatory Charter School  
and Affiliate**

Consolidated Financial Statements

June 30, 2009



# BRONX PREPARATORY CHARTER SCHOOL AND AFFILIATE

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**June 30, 2009**

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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, 2009, 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, 2008, and in our report, dated October 23, 2008, we 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, 2009, 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 made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The consolidating information on pages 20 and 21 is presented for purposes of additional analysis of the basic consolidated financial statements rather than to present the financial position, change in net assets, and cash flows of the individual organizations. The consolidating 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 26, 2009, 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 26, 2009

# BRONX PREPARATORY CHARTER SCHOOL AND AFFILIATE

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

June 30,	2009	2008
<b>ASSETS</b>		
Cash and Cash Equivalents	\$ 1,116,138	\$ 2,747,552
Restricted Cash		195,000
Short-Term Investments	2,600,377	
Contributions and Other Receivables	1,053,830	1,018,159
Other Assets	82,318	26,164
Property and Equipment, net	18,407,218	18,973,395
<b>Total Assets</b>	<b>\$23,259,881</b>	<b>\$22,960,270</b>
<b>LIABILITIES AND NET ASSETS</b>		
Liabilities:		
Accounts payable and accrued expenses	\$ 273,874	\$ 341,111
Note payable	3,545,528	3,664,916
<b>Total liabilities</b>	<b>3,819,402</b>	<b>4,006,027</b>
Net Assets:		
Unrestricted	18,409,377	17,618,482
Temporarily Restricted	1,031,102	1,335,761
<b>Total net assets</b>	<b>19,440,479</b>	<b>18,954,243</b>
<b>Total Liabilities and Net Assets</b>	<b>\$23,259,881</b>	<b>\$22,960,270</b>

See Notes to Consolidated Financial Statements

# BRONX PREPARATORY CHARTER SCHOOL AND AFFILIATE

## CONSOLIDATED STATEMENT OF ACTIVITIES

(with summarized comparative information for the year ended June 30, 2008)

Year ended June 30,	2009			2008
	Unrestricted	Temporarily Restricted	Total	Summarized Comparative Information Total
Operating revenue:				
State and local per pupil operating revenue	\$ 8,329,574		\$ 8,329,574	\$ 6,719,888
Government grants and contracts	670,540		670,540	706,164
<b>Total operating revenue</b>	<b>9,000,114</b>		<b>9,000,114</b>	<b>7,426,052</b>
Expenses:				
Program services:				
Academic program	8,072,585		8,072,585	7,236,519
Enrichment programs	1,216,700		1,216,700	1,027,971
General and administrative	527,996		527,996	405,562
<b>Total operating expenses</b>	<b>9,817,281</b>		<b>9,817,281</b>	<b>8,670,052</b>
Deficit on school operations from government funding	(817,167)		(817,167)	(1,244,000)
Support and other revenue:				
Contributions:				
Foundations	1,192,258	\$ 2,381	1,194,639	774,512
Individuals	102,490	27,960	130,450	431,106
Corporations	18,504	25,000	43,504	15,807
Benefit event				50,838
Interest income	49,588		49,588	112,875
Miscellaneous income	71,072		71,072	64,794
Net assets released from purpose and time restrictions	360,000	(360,000)		
Fund-raising expenses	(185,850)		(185,850)	(102,530)
<b>Total support and other revenue</b>	<b>1,608,062</b>	<b>(304,659)</b>	<b>1,303,403</b>	<b>1,347,402</b>
Change in net assets	790,895	(304,659)	486,236	103,402
Net assets at beginning of year	17,618,482	1,335,761	18,954,243	18,850,841
<b>Net assets at end of year</b>	<b>\$18,409,377</b>	<b>\$1,031,102</b>	<b>\$19,440,479</b>	<b>\$18,954,243</b>

See Notes to Consolidated Financial Statements

# BRONX PREPARATORY CHARTER SCHOOL AND AFFILIATE

## CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES (with summarized comparative information for the year ended June 30, 2008)

Year ended June 30,	2009					2008	
	Program Services			Supporting Services		Summarized Comparative Financial Information Total	
	Academic Program	Enrichment Programs	Total Programs	General and Administrative	Fund-raising	Total	
Salaries - educators	\$4,447,475	\$ 535,078	\$4,982,553			\$ 4,982,553	\$4,387,861
Salaries - administrators	186,208		186,208	\$323,730	\$120,914	630,852	437,431
Salaries - facilities	153,184	18,227	171,411	8,302	3,107	182,820	166,532
Payroll taxes and employee benefits	1,135,084	116,909	1,251,993	59,892	19,931	1,331,816	1,107,443
<b>Total personnel expenses</b>	<b>5,921,951</b>	<b>670,214</b>	<b>6,592,165</b>	<b>391,924</b>	<b>143,952</b>	<b>7,128,041</b>	<b>6,099,267</b>
Student meal program	256,133		256,133			256,133	228,271
Classroom books and supplies	369,153		369,153			369,153	230,758
Computer instructional support							20,000
Office expenses	33,643	4,003	37,646	16,740	1,928	56,314	54,980
Student events		83,976	83,976			83,976	94,616
Audit/bank fees/payroll/legal	28,659	3,410	32,069	40,459	581	73,109	86,876
Insurance	79,482	9,457	88,939	4,308	1,612	94,859	97,733
Utilities	172,385	20,511	192,896	9,343	3,497	205,736	219,917
Equipment and furnishings	188,262	21,479	209,741	9,783	3,662	223,186	224,078
Facility maintenance and security	229,084	27,258	256,342	12,416	4,647	273,405	261,234
Interest on facility loan	211,199	25,130	236,329	11,446	4,284	252,059	260,155
Fund-raising					9,869	9,869	
Enrichment fees/curriculum materials		61,071	61,071			61,071	78,911
Student field lessons		110,527	110,527			110,527	89,373
College preparation program		104,446	104,446			104,446	35,150
Parent programs		5,893	5,893			5,893	4,920
Depreciation and amortization	582,634	69,325	651,959	31,577	11,818	695,354	685,861
Loss on sale of donated securities							482
	<b>\$8,072,585</b>	<b>\$1,216,700</b>	<b>\$9,289,285</b>	<b>\$527,996</b>	<b>\$185,850</b>	<b>\$10,003,131</b>	<b>\$8,772,582</b>

See Notes to Consolidated Financial Statements

# BRONX PREPARATORY CHARTER SCHOOL AND AFFILIATE

## CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended June 30,	2009	2008
Cash flows from operating activities		
Change in net assets	\$ 486,236	\$ 103,402
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	695,354	685,861
Donated securities, net		(41,010)
Changes in operating assets and liabilities:		
Decrease in restricted cash	195,000	5,000
Increase in contributions and other receivables	(35,671)	(12,703)
(Increase) decrease in other assets	(56,154)	98,790
(Decrease) increase in accounts payable and accrued expenses	(67,237)	124,786
<b>Net cash provided by operating activities</b>	<b>1,217,528</b>	<b>964,126</b>
Cash flows from investing activities:		
Purchases of short-term investments	(2,600,377)	
Proceeds from sale of investments		41,010
Purchases of property and equipment	(129,177)	(785,240)
<b>Net cash used in investing activities</b>	<b>(2,729,554)</b>	<b>(744,230)</b>
Cash used in financing activity - repayment of note payable	(119,388)	(111,339)
Net increase (decrease) in cash	(1,631,414)	108,557
Cash and cash equivalents at beginning of year	2,747,552	2,638,995
Cash and cash equivalents at end of year	<b>\$ 1,116,138</b>	<b>\$2,747,552</b>
<b>Supplemental schedule of noncash investing activity:</b>		
Interest paid on loan	\$ 252,059	\$ 260,155

See Notes to Consolidated Financial Statements

# BRONX PREPARATORY CHARTER SCHOOL AND AFFILIATE

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2009

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**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, community 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.

In fiscal year 2009, the School operated classes for students in grades 5 through 12.

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, 2009 and 2008, the Organization had no permanently restricted net assets.

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.

Contributions are recognized as revenue in the year the pledge is received and documented. Contributions and unconditional promises to give are considered to be available for unrestricted use unless specifically restricted by the donor.

Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted 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.

# BRONX PREPARATORY CHARTER SCHOOL AND AFFILIATE

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2009

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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, 2009 and 2008, the value of such contributed services amounted to approximately \$7,000 and \$16,000, 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 considers all highly liquid financial instruments purchased with a maturity of three months or less to be cash equivalents. The Organization maintains cash and cash equivalents in bank deposits and money market accounts with two financial institutions. At times, balances on these accounts may exceed federally insured limits. The Organization has not experienced any losses in such accounts.

Investments are stated at cost plus accrued interest, which approximates fair value.

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 management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

# BRONX PREPARATORY CHARTER SCHOOL AND AFFILIATE

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2009

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The consolidated financial statements include certain prior-year summarized comparative information in total but not by net asset and functional classifications. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended June 30, 2008, from which the summarized information was derived.

The Organization adopted Statement of Financial Accounting Standards ("SFAS") No. 157, *Fair Value Measurements*, at the beginning of fiscal year 2009. SFAS 157 establishes a framework for measuring fair value under generally accepted accounting principles in the United States of America, and requires expanded disclosure about fair value measurements to enable a reader of financial statements to assess the inputs used to develop those measurements. SFAS 157 requires that assets and liabilities carried at fair value be classified and disclosed according to the following categories:

Level 1: Quoted market prices in active markets for similar assets and liabilities.

Level 2: Observable market based inputs or unobservable inputs that are corroborated by market data.

Level 3: Unobservable inputs that are not corroborated by market data.

Implementation of SFAS 157 had no impact on the Organization's 2009 consolidated financial position or changes in net assets.

The FASB has 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 recognition threshold and measurement standard for financial statements of an income tax position taken or expected to be taken on a tax return, including positions that an organization is exempt from income taxes or not subject to income taxes on unrelated business income. In addition, FIN 48 provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition.

The Organization presently recognizes income tax positions based on management's estimates of whether it is reasonably possible or probable that a liability has been incurred for unrecognized income tax benefits by applying SFAS No. 5, *Accounting for Contingencies*.

The Organization has elected to defer the application of FIN 48 in accordance with FASB Staff Position ("FSP") FIN 48-3. This FSP defers the effective date of FIN 48 for nonpublic enterprises included within its scope to the annual financial statements for fiscal years beginning after December 15, 2008. The Organization will be required to adopt FIN 48 in its 2010 annual financial statements. The provisions of FIN 48 are to be applied to all tax positions upon initial application of this standard. Only tax positions that meet the more-likely-than-not recognition threshold at the effective date may be recognized or continue to be recognized upon adoption.

# BRONX PREPARATORY CHARTER SCHOOL AND AFFILIATE

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS June 30, 2009

Management believes that the adoption of FIN 48 will not have material impact on the Organization's consolidated financial position and results of operation.

The Organization evaluates events occurring after the date of the financial statements to consider whether or not the impact of such events needs to be reflected or disclosed in the financial statements. Such evaluation is performed through the date the financial statements are issued, which was October 26, 2009 for these financial statements.

**2. FAIR VALUE OF CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS:**

The Organization categorizes its cash equivalents and short-term investments into a three-level fair value hierarchy pursuant to SFAS 157.

Below is the composition of the Organization's cash equivalents and short-term investments at June 30, 2009 and their classification in the fair value hierarchy.

	Total	Fair Value Measurements Using		
		Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Cash equivalents:</b>				
Money market fund	\$ 245,051	\$ 245,051		
Certificate of deposit	250,000		\$250,000	
	\$ 495,051	\$ 245,051	\$250,000	
<b>Short-term investments:</b>				
Money market funds	\$2,060,554	\$2,060,554		
Certificates of deposit	539,823		\$539,823	
	\$2,600,377	\$2,060,554	\$539,823	

Approximately 81% of the Organization's cash equivalents and short-term investments are held by one financial institution at June 30, 2009.

**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,	2009	2008
In one year or less	\$ 917,668	\$ 793,243
In more than one year, discounted at 5%	136,162	224,916
	\$1,053,830	\$1,018,159

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

# BRONX PREPARATORY CHARTER SCHOOL AND AFFILIATE

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS June 30, 2009

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

	June 30,	2009	2008	Estimated Useful Life
Computer equipment and software	\$	579,425	\$ 492,578	3 to 5 years
Furniture and fixtures		276,098	257,697	7 years
Musical instruments		109,664	109,664	7 years
Office equipment		80,695	80,695	7 years
Land at 3872 Third Avenue <sup>(a, b)</sup>		658,614	658,614	
Building and improvements <sup>(a, b)</sup>		19,659,775	19,635,846	10 to 39 years
		21,364,271	21,235,094	
Less accumulated depreciation and amortization		(2,957,053)	(2,261,699)	
		\$18,407,218	\$18,973,395	

(a) The land was purchased by the School and subsequently transferred to Friends on the same day that it was acquired from the New York City Economic Development Corporation.

(b) Friends subleases the land and building to the School through November 30, 2027 at an annual amount of \$704,100. In the spring of 2009, Friends completed sidewalk paving, tree planting and other improvements required to obtain a permanent Certificate of Occupancy. This certificate was issued by the New York City Department of Buildings on May 29, 2009.

**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 the lender, NCB Capital Impact, into a seven-year, \$4,000,000 permanent loan, secured by the building. Interest on this loan accrues at 7% per annum, and is being amortized over a 20-year schedule with a balloon payment due in March 2012. At June 30, 2009, this loan had a balance of \$3,545,528. The future minimum principal payments on this loan are as follows:

Fiscal year ending June 30,	Amount
2010	\$ 128,018
2011	137,273
2012	3,280,237
	\$3,545,528

# BRONX PREPARATORY CHARTER SCHOOL AND AFFILIATE

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2009

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- 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 2009 consisted of satisfaction of time restriction of \$250,000 and purpose restriction (program) of \$110,000.
- 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.
- 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, 2009 and 2008 approximated \$213,000 and \$173,000, 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 (the "School") and Affiliate (the "Organization") as of and for the year ended June 30, 2009, and have issued our report thereon dated October 26, 2009. 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 26, 2009.

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 26, 2009

# 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, 2009. 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, 2009.

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.

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, 2009, and have issued our report thereon dated October 26, 2009. 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 26, 2009

**BRONX PREPARATORY CHARTER SCHOOL**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**June 30, 2009**

<b>Federal Grantor/Program Title</b>	<b>CFDA No.</b>	<b>Federal Expenditures*</b>
U.S. Department of Agriculture passed through the New York State Education Department:		
Child Nutrition Cluster:		
School Breakfast Program	10.553	\$ 59,027
National School Lunch Program	10.555	194,341
<b>Total Child Nutrition Cluster</b>		<b>253,368</b>
U.S. Department of Education passed through the New York State Education Department:		
Grants to Local Educational Agencies (Title IA)	84.010	381,508
Improving Teacher Quality State Grants (Title IIA)	84.367	31,951
Safe and Drug Free Schools and Communities (Title IVA)	84.186	3,713
<b>Total expenditures of federal awards</b>		<b>\$670,540</b>

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

# BRONX PREPARATORY CHARTER SCHOOL AND AFFILIATE

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS

June 30, 2009

### 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, 2009

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

#### A. Internal Control

None reported.

#### B. Compliance Findings

None reported.

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

#### A. Internal Control

None reported.

#### B. Compliance Findings

None reported.

**BRONX PREPARATORY CHARTER SCHOOL AND AFFILIATE**  
**SUPPLEMENTARY INFORMATION**

**CONSOLIDATING STATEMENT OF FINANCIAL POSITION**

**June 30, 2009**

	<b>Bronx Preparatory Charter School</b>	<b>Friends of Bronx Preparatory Charter School, Inc.</b>	<b>Eliminations</b>	<b>Total</b>
<b>ASSETS</b>				
Cash and Cash Equivalents	\$ 345,247	\$ 770,891		\$ 1,116,138
Short-Term Investments	906,346	1,694,031		2,600,377
Contributions and Other Receivables	819,802	234,028		1,053,830
Due From Affiliate		36,247	\$(36,247)	
Other Assets	81,749	569		82,318
Property and Equipment, net	1,558,406	16,848,812		18,407,218
<b>Total Assets</b>	<b>\$3,711,550</b>	<b>\$19,584,578</b>	<b>\$(36,247)</b>	<b>\$23,259,881</b>
<b>LIABILITIES AND NET ASSETS</b>				
Liabilities:				
Accounts payable and accrued expenses	\$ 228,151	\$ 45,723		\$ 273,874
Note payable		3,545,528		3,545,528
Due to affiliate	36,247		\$(36,247)	
<b>Total liabilities</b>	<b>264,398</b>	<b>3,591,251</b>	<b>(36,247)</b>	<b>3,819,402</b>
Net Assets:				
Unrestricted	3,397,152	15,012,225		18,409,377
Temporarily Restricted	50,000	981,102		1,031,102
<b>Total net assets</b>	<b>3,447,152</b>	<b>15,993,327</b>		<b>19,440,479</b>
<b>Total Liabilities and Net Assets</b>	<b>\$3,711,550</b>	<b>\$19,584,578</b>	<b>\$(36,247)</b>	<b>\$23,259,881</b>

# BRONX PREPARATORY CHARTER SCHOOL AND AFFILIATE

## SUPPLEMENTARY INFORMATION

### CONSOLIDATING STATEMENT OF ACTIVITIES

**Year ended June 30, 2009**

	Bronx Preparatory Charter School	Friends of Bronx Preparatory Charter School, Inc.	Eliminations	Total
Operating revenue:				
State and local per pupil operating revenue	\$ 8,329,574			\$ 8,329,574
Government grants and contracts	670,540			670,540
<b>Total operating revenue</b>	<b>9,000,114</b>			<b>9,000,114</b>
Expenses:				
Program services:				
Academic program	7,887,263	\$ 889,422	\$(704,100)	8,072,585
Enrichment programs	1,119,041	97,659		1,216,700
General and administrative	397,176	130,820		527,996
<b>Total operating expenses</b>	<b>9,403,480</b>	<b>1,117,901</b>	<b>(704,100)</b>	<b>9,817,281</b>
Deficit on school operations from government funding	(403,366)	(1,117,901)	704,100	(817,167)
Support and other revenue:				
Contributions:				
Foundations	1,015,901	178,738		1,194,639
Individuals	70,600	59,850		130,450
Corporations	33,004	10,500		43,504
Interest income	16,742	32,846		49,588
Miscellaneous income	8,844	766,328	(704,100)	71,072
Fund-raising expenses	(129,630)	(56,220)		(185,850)
<b>Total support and other revenue</b>	<b>1,015,461</b>	<b>992,042</b>	<b>(704,100)</b>	<b>1,303,403</b>
Change in net assets	612,095	(125,859)		486,236
Net assets at beginning of year	2,835,057	16,119,186		18,954,243
<b>Net assets at end of year</b>	<b>\$3,447,152</b>	<b>\$15,993,327</b>	<b>\$ - 0 -</b>	<b>\$19,440,479</b>