

BROOKLYN PROSPECT CHARTER SCHOOL
(Not-For-Profit Corporation)

FINANCIAL STATEMENTS

JUNE 30, 2014 AND 2013

BROOKLYN PROSPECT CHARTER SCHOOL
(Not-For-Profit Corporation)
FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

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FRUCHTER ROSEN & COMPANY, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITORS' REPORT

TO THE BOARD OF TRUSTEES OF
BROOKLYN PROSPECT CHARTER SCHOOL

Report on the Financial Statements

We have audited the accompanying financial statements of Brooklyn Prospect Charter School (the "School") (a not-for-profit corporation), which comprise the statement of financial position as of June 30, 2014, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the School's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the School as of June 30, 2014, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the School's 2013 financial statements, and our report dated October 25, 2013, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2013, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 21, 2014, on our consideration of the School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control over financial reporting and compliance.


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

New York, New York
October 21, 2014

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

	2014	2013
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 250,845	\$ 616,119
Grants and contract receivables	1,553	123,192
Due from related party	5,000	-
Prepaid expenses and other current assets	135,795	106,695
Total current assets	393,193	846,006
Other assets:		
Property and equipment, net of accumulated depreciation and amortization of \$902,566 and \$512,372, respectively	2,952,420	2,136,203
Security deposit	217,000	217,000
Restricted cash	75,091	75,002
Total other assets	3,244,511	2,428,205
TOTAL ASSETS	\$ 3,637,704	\$ 3,274,211
 LIABILITIES AND UNRESTRICTED NET ASSETS		
Current liabilities:		
Accounts payable and accrued expenses	\$ 191,362	\$ 157,013
Accrued payroll and payroll taxes	7,717	17,448
Deferred revenue	87,158	-
Total current liabilities	286,237	174,461
Deferred rent	1,428,219	666,851
Total liabilities	1,714,456	841,312
Unrestricted net assets	1,923,248	2,432,899
TOTAL LIABILITIES AND UNRESTRICTED NET ASSETS	\$ 3,637,704	\$ 3,274,211

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

BROOKLYN PROSPECT CHARTER SCHOOL
(Not-For-Profit Corporation)
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30,

	2014	2013
Revenue and support:		
State and local per pupil operating revenue	\$ 9,795,889	\$ 6,816,462
Federal grants	215,368	210,889
State grants	34,443	227,819
Contributions from related party	112,459	39,029
Donated goods and services	-	48,240
Other income	59,373	11,907
Total revenue and support	10,217,532	7,354,346
Expenses:		
Program services:		
Regular education	6,870,495	4,781,957
Special education	1,717,624	1,195,490
Total program services	8,588,119	5,977,447
Supporting services:		
Management and general	1,954,150	1,343,786
Fundraising	184,914	142,702
Total expenses	10,727,183	7,463,935
Changes in unrestricted net assets	(509,651)	(109,589)
Unrestricted net assets - beginning of year	2,432,899	2,542,488
Unrestricted net assets - end of year	\$ 1,923,248	\$ 2,432,899

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

BROOKLYN PROSPECT CHARTER SCHOOL
(Not-For-Profit Corporation)
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30,

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in unrestricted net assets	\$ (509,651)	\$ (109,589)
Adjustments to reconcile changes in unrestricted net assets to net cash provided by operating activities:		
Depreciation and amortization	390,538	281,321
Loss on disposal of property and equipment	2,731	-
Decrease (Increase) in certain assets:		
Grants and contract receivables	121,639	(120,973)
Due from related party	(5,000)	1,277
Prepaid expenses and other current assets	(29,100)	45,792
Security deposit	-	7,500
Restricted cash	(89)	(75,002)
Increase (Decrease) in certain liabilities:		
Accounts payable and accrued expenses	34,349	5,903
Accrued payroll and payroll taxes	(9,731)	(11,263)
Deferred rent	761,368	666,851
Refundable advances	-	(4,396)
Deferred revenue	87,158	-
	844,212	687,421
NET CASH PROVIDED BY OPERATING ACTIVITIES		
CASH FLOWS FROM INVESTING ACTIVITY		
Purchases of property and equipment	(1,209,486)	(1,519,237)
NET (DECREASE) IN CASH AND CASH EQUIVALENTS	(365,274)	(831,816)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	616,119	1,447,935
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 250,845	\$ 616,119

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

BROOKLYN PROSPECT CHARTER SCHOOL
(Not-For-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

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

Nature of Organization

Brooklyn Prospect Charter School (the “School”) is an educational corporation that operates a charter school in the borough of Brooklyn, New York. On July 28, 2008, the Board of Regents of the University of the State of New York granted the School a provisional charter valid for a term of five years and renewable upon expiration. The School applied for a five year charter renewal and on January 27, 2014 the SUNY Board of Trustees granted the School a full-term renewal for a period of five years, pending submission of final application documents and approval by the New York State Education Department Board of Regents. The School’s mission is to pair students with excellent teachers in a college preparatory environment using the pillars of international baccalaureate program. The School prepares students for success as global citizens and helps students develop the love of learning that provides the foundation for personal and professional success. In the 2013-2014 academic year, the School operated classes for approximately 601 students in grades kindergarten and sixth through tenth.

Tax Status

The School is exempt from Federal income tax under Section 501(a) of the Internal Revenue Code as an organization described in Section 501(c)(3) and a similar provision under New York State income tax laws. The School has also been classified as an entity that is not a private foundation within the meaning of Section 509(a) and qualifies for deductible contributions as provided in section 170(b)(1)(A)(ii). The School is subject to income taxes only on net unrelated business income. The School did not have any net unrelated business income for the years end June 30, 2014 and 2013.

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

IRS Forms 990 filed by the School are subject to examination by the Internal Revenue Service up to three years from the extended due date of each return. Forms 990 filed by the School are no longer subject to examination for the fiscal years ended June 30, 2010, and prior.

Basis of Presentation

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

BROOKLYN PROSPECT CHARTER SCHOOL
(Not-For-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

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

Basis of Presentation (Continued)

Unrestricted

Net assets of the School whose use has not been restricted by an outside donor or by law. They are available for any use in carrying out the operations of the School.

Temporarily Restricted

Net assets of the School whose use has been limited by donor-imposed stipulations that either expire with the passage of time or can be fulfilled and removed by actions of the School. When such stipulations end or are fulfilled, such temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

Permanently Restricted

Net assets of the School whose use has been permanently limited by donor-imposed restrictions. Such assets include contributions required to be invested in perpetuity, the income from which is available to support charitable purposes designated by the donors.

The School had no temporarily or permanently restricted net assets at June 30, 2014 and 2013.

Revenue and Support

Contributions are recognized when the donor makes a Promise to Give to the School that is, in substance, unconditional. Grants and other contributions of cash are reported as temporarily restricted support if they are received with donor stipulations. Restricted contributions and grants that are made to support the School's current year activities are recorded as unrestricted revenue. Contributions of assets other than cash are recorded at their estimated fair value.

Revenue from the state and local governments resulting from the School's charter status and based on the number of students enrolled is recorded when services are performed in accordance with the charter agreement. Federal and other state and local funds are recorded when expenditures are incurred and billable to the government agency.

Deferred Revenue

The School records deferred revenue until related services are performed, at which time they are recognized as revenue. The balance of \$87,158 at June 30, 2014, consists of amounts received for a 2015 field trip and will be offset against 2015 field trip expenses.

BROOKLYN PROSPECT CHARTER SCHOOL
(Not-For-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

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

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Cash and Cash Equivalents

For the purpose of the statements of cash flows, the School considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Concentration of Credit Risk

Financial instruments which potentially subject the School to concentrations of credit risk are cash and cash equivalents. The School places its cash and cash equivalents on deposit in what it believes to be highly credited financial institutions. Cash balances may exceed the FDIC insured levels of \$250,000 per institution at various times during the year. The School believes that there is little risk in any losses and has not experienced any losses in such accounts.

Property and Equipment

Purchased property and equipment are recorded at cost. Maintenance and repairs are expensed as incurred. All property and equipment purchased with government funding, whereas the government agency retains legal title to the long lived asset is expensed as incurred. Depreciation and amortization is provided on the straight line method over the estimated useful lives as follows:

Computers and Equipment	5 years
Furniture and Fixtures	7 years
Software	3 years
Leasehold Improvements	Useful life of lease

Refundable Advances

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

Comparative Financial Information

The accompanying statements of activities and functional expenses are presented with summarized comparative information. Such prior year information is not presented by net asset class in the statements of activities or by functional category in the schedule of functional expenses. Accordingly, such information should be read in conjunction with the School's 2013 financial statements from which the summarized information was derived.

BROOKLYN PROSPECT CHARTER SCHOOL
(Not-For-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

NOTE 2 - GRANTS AND CONTRACT RECEIVABLES

Grants and contract receivables consist of federal, state, and city entitlements and grants. The School expects to collect these receivables within one year.

NOTE 3 - PROPERTY AND EQUIPMENT

Property and equipment consists of the following at June30,:

	<u>2014</u>	<u>2013</u>
Computers and Equipment	\$ 869,025	\$ 678,721
Furniture and Fixtures	878,088	729,295
Software	33,744	16,181
Leasehold Improvements	2,074,129	1,199,861
Construction-in-Progress	<u>-</u>	<u>24,517</u>
	3,854,986	2,648,575
Less Accumulated Depreciation and Amortization	<u>(902,566)</u>	<u>(512,372)</u>
	<u>\$ 2,952,420</u>	<u>\$ 2,136,203</u>

Depreciation expense was \$390,538 and \$281,321 for the years ended June 30, 2014 and 2013, respectively.

For the year ended June 30, 2014, the School had a gain on disposal of property and equipment of \$344.

Construction in progress at June 30, 2013 is comprised of architect fees and other soft costs for the planning, development, and construction of the elementary school's permanent facility. The elementary school moved into their permanent facility on July 1, 2013, and capitalized \$24,517 of leasehold improvements.

NOTE 4 - CONTINGENCY

Certain grants and contracts may be subject to audit by the funding sources. Such audits might result in disallowances, if any, will not have a material effect on the accompanying financial statements. Accordingly, no amounts have been provided in the accompanying financial statements for such potential claims.

BROOKLYN PROSPECT CHARTER SCHOOL
(Not-For-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

NOTE 5 - REVENUE CONCENTRATION

The School receives a substantial portion of its support and revenue from the New York City Department of Education. If the charter school laws were modified, reducing or eliminating these revenues, the School's finances could be materially adversely affected.

NOTE 6 - FUNCTIONAL ALLOCATION OF EXPENSE

Directly identifiable expenses are charged to programs and supporting services. Expenses related to more than one function are charged to programs and supporting services on the basis of periodic time and expense studies. Management and general expense includes those expenses that are not directly identifiable with any other specific function, but provide for the overall support and direction of the School.

NOTE 7 - RETIREMENT PLAN

During the fiscal year 2012, the School maintained a qualified 401K plan. Under the plan the School matched employee contributions up to 4% of the annual compensation covered under the employment arrangement with ADP Retirement Services. Employee match for the years ended June 30, 2014 and 2013 amounted to \$111,637 and \$75,454, respectively.

NOTE 8 - EMPLOYMENT CONTRACT

The School entered into a co-employment arrangement with ADP Total Source, Inc., a professional employment organization, effective August 1, 2009. Under the co-employment arrangement, ADP assumes certain employment responsibilities, including the payment and reporting employees' wages and payroll taxes.

NOTE 9 - DONATED GOODS AND SERVICES

Donated services are recognized as contributions in accordance with FASB ASC 605, "Accounts for Contributions Received and Contributions Made," if the services (a) create or enhance non-financial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the School.

Individuals have provided legal services to the School at no charge. The value of these services meets the criteria for recognition in the financial statements and is recorded at fair value. For the years ended June 30, 2014 and 2013, the value of such donated services amounted to \$-0- and \$48,240, respectively.

BROOKLYN PROSPECT CHARTER SCHOOL
(Not-For-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

NOTE 10 - COMMITMENTS

Facilities

In April 2012, the School signed a lease with The Roman Catholic Church of the Immaculate Heart of Mary for its middle school classrooms and office space under a non-cancelable lease expiring June 30, 2032, with an option to extend the lease for an additional ten years. Under the terms of the lease, the School paid a security deposit in the amount of \$142,000. The School moved into its permanent facility on September 1, 2012 and commenced paying rent.

In May 2013, the School signed a lease with The Sisters of Saint Joseph for its elementary school classrooms and office space under a non-cancelable lease expiring June 30, 2023, with two options to extend the lease for an additional five years each. Under the terms of the lease, the School paid a security deposit in the amount of \$75,000. The School moved into this new facility on July 1, 2013, and commenced paying rent.

Future minimum lease payments under the preceding lease are as follows:

Year ending June 30, 2015	\$ 1,445,970
2016	1,664,820
2017	1,724,665
2018	1,970,846
2019	2,040,976
Thereafter	<u>25,062,719</u>
	<u>\$ 33,909,996</u>

The School recognizes rent expense on a straight-line basis over the term of the leases. Rent expense in excess of payments is recorded as deferred rent in the accompanying statements of financial position. Rent expense under the leases for the years ended June 30, 2014 and 2013 amounted to \$1,908,051 and \$1,361,690, respectively.

Leased equipment

The School leases various copy machines under non-cancelable operating leases expiring in various years through 2018. Minimum future rental payments under non-cancelable operating leases having remaining terms in excess of one year as of June 30, 2014 for each of the next five years and in the aggregate are as follows:

Year ending June 30, 2015	\$ 36,660
2016	48,612
2017	44,628
2018	36,660
2019	<u>1,546</u>
	<u>\$ 168,106</u>

BROOKLYN PROSPECT CHARTER SCHOOL
(Not-For-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

NOTE 11 - RELATED PARTY TRANSACTIONS

The School is an affiliate of Prospect Schools Inc. (“Prospect”), a New York State not-for-profit corporation. Prospect provides financial support and other services to the School. For the years ended June 30, 2014 and 2013, the School received a contribution of \$112,459 and \$39,029, respectively, from Prospect to cover specific program expenses. At June 30, 2014 and 2013, the outstanding balance due from Prospect amounted to \$5,000 and \$0- respectively.

NOTE 12 - SUBSEQUENT EVENTS

In preparing these financial statements, the School has evaluated events and transactions for potential recognition or disclosure through October 21, 2014, the date the financial statements were available to be issued.

On July 1, 2014, the School leased additional space for its elementary school location amending their prior lease with the landlord.

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CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITORS' REPORT
ON SUPPLEMENTARY INFORMATION

TO THE BOARD OF TRUSTEES OF
BROOKLYN PROSPECT CHARTER SCHOOL

We have audited the financial statements of Brooklyn Prospect Charter School as of and for the year ended June 30, 2014, and have issued our report thereon dated October 21, 2014, which contained an unmodified opinion on those financial statements. Our audit was performed for the purpose of forming an opinion on the financial statements as a whole. The schedule of functional expenses is presented for the purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.


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

New York, New York
October 21, 2014

BROOKLYN PROSPECT CHARTER SCHOOL
(Not-For-Profit Corporation)
SCHEDULE OF FUNCTIONAL EXPENSES
FOR THE YEARS ENDED JUNE 30,

	2014						
	Regular Education	Special Education	Total Program Service	Management and General	Fundraising	Total	2013
Salaries	\$ 3,527,806	\$ 881,951	\$ 4,409,757	\$ 869,925	\$ 56,019	\$ 5,335,701	\$ 3,552,227
Employee benefits and payroll taxes	766,922	191,731	958,653	175,363	35,073	1,169,089	739,286
Office expenses	103,969	25,992	129,961	60,391	3,225	193,577	137,130
Accounting and auditing	-	-	-	18,250	-	18,250	18,250
Legal fees	-	-	-	2,500	-	2,500	4,155
Donated legal services	-	-	-	-	-	-	48,240
Payroll service	104,924	26,231	131,155	23,991	4,798	159,944	101,060
Accountability consultant	9,600	2,400	12,000	25,279	-	37,279	30,000
General & administrative consultant	9,109	2,277	11,386	34,159	-	45,545	16,088
Program curriculum development	18,400	4,600	23,000	-	-	23,000	22,028
Other professional fees	215,065	53,766	268,831	29,239	4,366	302,436	118,013
Professional development	13,054	3,264	16,318	11,166	-	27,484	21,028
Student and staff meals	168,972	42,243	211,215	10,931	-	222,146	144,562
Student and staff special events	12,931	3,233	16,164	3,554	-	19,718	16,908
Marketing and recruiting	11,226	2,807	14,033	2,568	513	17,114	10,891
Parent teacher organization	-	-	-	1,978	5,937	7,915	5,578
Curriculum and classroom	215,870	53,969	269,839	-	-	269,839	239,517
Insurance	33,295	8,323	41,618	21,435	-	63,053	41,918
Facility expense	1,358,062	339,515	1,697,577	559,715	62,106	2,319,398	1,861,284
Technology	29,789	7,447	37,236	41,625	461	79,322	42,899
Miscellaneous	15,308	3,827	19,135	3,500	700	23,335	11,552
Depreciation and amortization	256,193	64,048	320,241	58,581	11,716	390,538	281,321
Total expenses	<u>\$ 6,870,495</u>	<u>\$ 1,717,624</u>	<u>\$ 8,588,119</u>	<u>\$ 1,954,150</u>	<u>\$ 184,914</u>	<u>\$ 10,727,183</u>	<u>\$ 7,463,935</u>

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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

TO THE BOARD OF TRUSTEES OF
BROOKLYN PROSPECT CHARTER SCHOOL

We have audited, in accordance with the 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, the financial statements of Brooklyn Prospect Charter School and Affiliate (the "School"), which comprise the statement of financial position as of June 30, 2014, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 21, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the School's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control. Accordingly, we do not express an opinion on the effectiveness of the School's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

We noted certain matters that we reported to the management of the School in a separate letter dated October 21, 2014.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the School's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the School's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.


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

New York, New York
October 21, 2014

BROOKLYN PROSPECT CHARTER SCHOOL

MANAGEMENT LETTER

JUNE 30, 2014

FRUCHTER ROSEN & COMPANY, P.C.
CERTIFIED PUBLIC ACCOUNTANTS
156 WEST 56TH STREET
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October 21, 2014

Audit Committee of the Board of Trustees of
Brooklyn Prospect Charter School

In planning and performing our audit of the financial statements of Brooklyn Prospect Charter School (the "School") as of and for the year ended June 30, 2014, in accordance with auditing standards generally accepted in the United States of America, we considered the School's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control. Accordingly, we do not express an opinion on the effectiveness of the School's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the School's financial statements will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Exhibit I accompanying this letter summarizes an observation for the year ended June 30, 2014 that we determined did not constitute a significant deficiency or material weakness. Exhibit II summarizes corrective action not taken on a prior year observation. Management's response to the observations has not been subjected to the auditing procedures applied in the audit of the financial statements and accordingly, we express no opinion on it.

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

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


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

New York, New York
October 21, 2014

BROOKLYN PROSPECT CHARTER SCHOOL
MANAGEMENT LETTER
JUNE 30, 2014

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BROOKLYN PROSPECT CHARTER SCHOOL
MANAGEMENT LETTER
JUNE 30, 2014

EXHIBIT I – CURRENT YEAR OBSERVATION

A. GENERAL LEDGER MAINTENANCE

Observation

Although schedules were prepared for our audit fieldwork, these schedules and reconciliations were not prepared and updated throughout the fiscal year ended June 30, 2014. This resulted in various adjustments to the general ledger during the year-end closing of books and records, which prolonged the completion of the audit. These adjustments could have been minimized had accounts been analyzed and compared with the general ledger on a regular basis.

Recommendation

Accounts should be analyzed and reconciled with the general ledger on a monthly or quarterly basis. Periodic in-depth account analysis and reconciliations will help the School to detect and correct errors in the general ledger on a timely basis. Management should oversee the accounting functions throughout the year.

Management's Response

With the recent growth of our school to a multi-campus organization, we have found ourselves in particular under-staffed in the area of Finance, and unable to be as diligent as we would like in proactively preparing and reviewing audit schedules throughout the year while managing the day-to-day needs of our schools. We intend to add a full-time team member in the coming months, and have also retained a consultant who has already begun to prepare schedules for 2014-15.

BROOKLYN PROSPECT CHARTER SCHOOL
MANAGEMENT LETTER
JUNE 30, 2014

EXHIBIT II – CORRECTIVE ACTION NOT TAKEN ON PRIOR YEAR OBSERVATION

In conjunction with performing the audit of the School's financial statements for the year ended June 30, 2014, we followed up on the status of implementation of audit recommendations made during the year ended June 30, 2013.

A. APPROVAL OF CREDIT CARD PURCHASES

Observation

Even though the majority of credit card purchases tested were adequately supported by receipts, invoices, and other documentation, we noted that many of the purchase request forms were signed after the purchase date. The School explained that the requests are often made for repeat purchases and that the approvals are made verbally, with the signing of the purchase request form taking place later as part of a batch signing of various documents.

Recommendation

We recommend that in circumstances where the School cannot obtain a written approval prior to a purchase, that the School obtain approvals by e-mail rather than verbally so as to retain a record of the authorization that would evidence the actual timing of approval.

Current Year Status

During our 2014 audit, we noted that the School improved with obtaining proper approvals prior to credit card purchases. There remains a significant amount of purchases where approvals were obtained after the purchase dates.

Update Management's Response

We are consistently working to adapt our procedures to better support the school's changing needs as it evolves into a multi-campus organization relying more heavily on electronic approvals and transactions. While we have not yet reached perfection, we continue to prioritize strong checks and balances across all levels of the organization, and have recently implemented some new approval systems that we hope will lead to better outcomes in the coming year.

FRUCHTER ROSEN & COMPANY, P.C.
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October 21, 2014

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

We have audited the financial statements of Brooklyn Prospect Charter School (the "School") for the year ended June 30, 2014, and have issued our report thereon dated October 21, 2014. Professional standards require that we provide you with the following information related to our audit.

Our Responsibilities under U.S. Generally Accepted Auditing Standards and *Government Auditing Standards*

As stated in our engagement letter dated February 18, 2014, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

As part of our audit, we will consider the internal control of Brooklyn Prospect Charter School. Such considerations are solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we will perform tests of Brooklyn Prospect Charter School's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests is not to provide an opinion on compliance with such provisions.

Planned Scope and Timing of the Audit

We performed our audit according to the plan previously communicated to you prior to commencement of our audit field work.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Brooklyn Prospect Charter School are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended June 30, 2014. We noted no transactions entered into by the School during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements are as follows:

- Collectability of grants and contracts receivables
- Useful lives of fixed assets
- Allocation of costs for the schedule of functional expenses

We evaluated the key factors and assumptions used to develop the above estimates in determining that it was reasonable in relation to the financial statement taken as a whole. The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. In addition, we are required to communicate with those charged with governance uncorrected misstatements and the effect that they may have on the opinion in the auditor's report, and request their correction. The following material misstatement determined as a result of audit procedures was corrected by management.

- An entry was made in the amount of \$666,850 to correct the deferred rent liability balance at June 30, 2014.

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 21, 2014.

Management Consultations with Other Independent Accountants

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

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the School’s auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

We have issued a separate report to you dated October 21, 2014, communicating internal control related matters identified during the audit.

Other Matters

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

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

Very truly yours,


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