

Bronx Preparatory Charter School and Affiliate

Consolidated Financial Report

June 30, 2011

Contents

Independent Auditor's Report	1
Financial Statements:	
Consolidated Statements of Financial Position	2
Consolidated Statement of Activities	3
Consolidated Statement of Functional Expenses	4
Consolidated Statements of Cash Flows	5
Notes to Consolidated Financial Statements	6 - 10
Reports Required by the Federal Single Audit Act and OMB Circular A-133:	
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	11 - 12
Independent Auditor's Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133	13 - 14
Schedule of Expenditures of Federal Awards	15
Schedule of Findings and Questioned Costs	16 - 17
Supplementary Information:	
Consolidating Statement of Financial Position	18
Consolidating Statement of Activities	19



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 (collectively, the "Organization") as of June 30, 2011, 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 Organization's 2010 consolidated financial statements and, in our report, dated October 29, 2010, 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 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, 2011, 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.

In accordance with *Government Auditing Standards*, we have also issued our report, dated October 27, 2011, 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, 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 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.

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 18 and 19 is presented for purposes of additional analysis of the basic consolidated financial statements rather than to present the financial position and change in net assets of the individual organizations. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic consolidated financial statements. The supplemental information and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic consolidated financial statements taken as a whole.

McGladrey & Pullen, LLP

New York, New York
October 27, 2011

Bronx Preparatory Charter School and Affiliate

**Consolidated Statements of Financial Position
June 30, 2011 and 2010**

	2011	2010
ASSETS		
Cash and Cash Equivalents	\$ 1,073,506	\$ 704,624
Short-Term Investments	4,157,661	4,111,179
Contributions and Other Receivables, net	826,170	789,585
Other Assets	27,210	63,564
Property and Equipment, net	<u>17,476,245</u>	<u>17,914,463</u>
Total assets	<u>\$ 23,560,792</u>	<u>\$ 23,583,415</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	\$ 219,924	\$ 320,745
Note payable	<u>3,280,168</u>	<u>3,417,510</u>
Total liabilities	<u>3,500,092</u>	<u>3,738,255</u>
Net Assets:		
Unrestricted	19,078,693	18,773,153
Temporarily restricted	<u>982,007</u>	<u>1,072,007</u>
Total net assets	<u>20,060,700</u>	<u>19,845,160</u>
Total liabilities and net assets	<u>\$ 23,560,792</u>	<u>\$ 23,583,415</u>

See Notes to Consolidated Financial Statements.

Bronx Preparatory Charter School and Affiliate

Consolidated Statement of Activities

Year Ended June 30, 2011

(with summarized comparative information for the year ended June 30, 2010)

	2011			2010
	Unrestricted	Temporarily Restricted	Total	Summarized Comparative Information Total
Operating Revenue:				
State and local per pupil operating revenue	\$ 10,094,139	\$ -	\$ 10,094,139	\$ 9,117,741
Government grants and contracts	796,781	-	796,781	955,912
Total operating revenue	10,890,920	-	10,890,920	10,073,653
Expenses:				
Program services:				
Academic program	8,992,738	-	8,992,738	8,540,806
Enrichment programs	1,482,271	-	1,482,271	1,346,862
General and administrative	707,772	-	707,772	483,572
Total operating expenses	11,182,781	-	11,182,781	10,371,240
Deficit on school operations from government funding	(291,861)	-	(291,861)	(297,587)
Support and Other Revenue (Expense):				
Contributions:				
Foundations	155,800	510,000	665,800	744,875
Individuals (including donated stock of \$31,919 and \$19,885 in 2011 and 2010, respectively)	165,968	-	165,968	92,556
Corporations	38,012	-	38,012	29,367
Other in-kind contributions	83,619	-	83,619	-
Benefit event	8,448	-	8,448	59,640
Investment income	18,798	-	18,798	12,115
Miscellaneous income	14,186	-	14,186	68,875
Net assets released from time restrictions	500,000	(500,000)	-	-
Fund-raising expenses	(315,399)	-	(315,399)	(246,065)
Loss on uncollectible pledges	(72,031)	(100,000)	(172,031)	(59,095)
Total support and other revenue (expense)	597,401	(90,000)	507,401	702,268
Change in net assets	305,540	(90,000)	215,540	404,681
Net Assets:				
Beginning	18,773,153	1,072,007	19,845,160	19,440,479
Ending	<u>\$ 19,078,693</u>	<u>\$ 982,007</u>	<u>\$ 20,060,700</u>	<u>\$ 19,845,160</u>

See Notes to Consolidated Financial Statements.

Bronx Preparatory Charter School and Affiliate

Consolidated Statement of Functional Expenses

Year Ended June 30, 2011

(with summarized comparative information for the year ended June 30, 2010)

	2011			2010			
	Program Services		Total	Supporting Services		Total	Summarized Comparative Financial Information Total
	Academic Program	Enrichment Programs	Program Expenses	General and Administrative	Fund- Raising	Expenses	
Salaries - educators	\$ 4,961,544	\$ 578,443	\$ 5,539,987	\$ -	\$ -	\$ 5,539,987	\$ 5,399,666
Salaries - administrators	233,478	-	233,478	502,369	169,790	905,637	656,540
Salaries - facilities	231,975	27,616	259,591	11,046	5,523	276,160	188,331
Payroll taxes and employee benefits	1,209,197	135,037	1,344,234	114,392	39,061	1,497,687	1,528,479
Total personnel expenses	6,636,194	741,096	7,377,290	627,807	214,374	8,219,471	7,773,016
Student meal program	281,318	22,312	303,630	-	-	303,630	285,316
Classroom books and supplies	268,024	-	268,024	-	-	268,024	238,363
Office expenses	61,813	7,359	69,172	2,943	1,472	73,587	62,246
Student events	-	88,048	88,048	-	-	88,048	63,058
Audit/bank fees/payroll/legal	72,842	8,672	81,514	3,467	1,735	86,716	35,991
Insurance	69,576	8,283	77,859	3,313	1,657	82,829	81,056
Utilities	187,523	22,324	209,847	8,930	4,465	223,242	181,358
Equipment and furnishings	268,199	27,419	295,618	10,969	5,484	312,071	137,329
Facility maintenance and security	286,507	34,109	320,616	13,642	6,821	341,079	409,308
Interest on facility loan	196,563	23,400	219,963	9,360	4,680	234,003	243,379
Fund-raising	-	-	-	-	61,039	61,039	58,154
Enrichment fees/curriculum materials	-	51,250	51,250	-	-	51,250	78,678
Student field lessons	89,985	299,737	389,722	-	-	389,722	189,022
College preparation program	-	79,905	79,905	-	-	79,905	102,018
Parent programs	-	-	-	-	-	-	4,725
Depreciation and amortization	574,194	68,357	642,551	27,341	13,672	683,564	674,288
Total expenses	\$ 8,992,738	\$ 1,482,271	\$ 10,475,009	\$ 707,772	\$ 315,399	\$ 11,498,180	\$ 10,617,305

See Notes to Consolidated Financial Statements.

Bronx Preparatory Charter School and Affiliate

Consolidated Statements of Cash Flows
Years Ended June 30, 2011 and 2010

	2011	2010
Cash Flows From Operating Activities:		
Change in net assets	\$ 215,540	\$ 404,681
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	683,564	674,288
Donated securities and equipment	(82,242)	(19,885)
Unrealized gain on securities	(9,051)	-
Loss on uncollectible pledges	172,031	59,095
Changes in operating assets and liabilities:		
(Increase) decrease in contributions and other receivables	(208,616)	205,150
Decrease in other assets	36,354	18,754
(Decrease) increase in accounts payable and accrued expenses	(100,821)	46,871
	<u>706,759</u>	<u>1,388,954</u>
Cash Flows From Investing Activities:		
Purchases of short-term investments	(5,512)	(6,100,624)
Proceeds from sale of short-term investments	-	4,609,707
Purchases of property and equipment	(195,023)	(181,533)
	<u>(200,535)</u>	<u>(1,672,450)</u>
Cash Flows Used in Financing Activity - repayment of note payable		
	<u>(137,342)</u>	<u>(128,018)</u>
	368,882	(411,514)
Cash and Cash Equivalents:		
Beginning	<u>704,624</u>	<u>1,116,138</u>
Ending	<u>\$ 1,073,506</u>	<u>\$ 704,624</u>
Supplemental Disclosure of Cash Flow Information:		
Interest paid on note payable	<u>\$ 239,207</u>	<u>\$ 244,125</u>

See Notes to Consolidated Financial Statements.

Bronx Preparatory Charter School and Affiliate

Notes to Consolidated Financial Statements

Note 1. Organization, Principal Business Activity and Summary of Significant Accounting Policies

Organization and Principal Business Activity: Bronx Preparatory Charter School (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, and again in the spring of 2010 for full five-year terms. 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. In fiscal year 2011, the School operated classes for students in grades 5 through 12.

Friends of Bronx Preparatory Charter School, Inc. ("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.

Basis of Accounting and Financial Statement Presentation: 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 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, 2011 and 2010, the Organization had no permanently restricted net assets.

Revenue Recognition: 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 support, which increases those net asset classes. When the specified purpose of donor-restricted contributions is met, the net asset is released from restriction and transferred to unrestricted net assets. Contributions of assets other than cash are recorded at their estimated fair value.

Contributed services are reported as contributions at their fair value if such services create or enhance nonfinancial assets or would have been purchased if not provided by donation, require specialized skills and are provided by individuals possessing such specialized skills.

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 are recognized when qualifying expenditures are incurred. Cash received in excess of expenditures incurred is recognized as refundable advances.

Bronx Preparatory Charter School and Affiliate

Notes to Consolidated Financial Statements

Note 1. Organization, Principal Business Activity and Summary of Significant Accounting Policies (Continued)

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.

Functional Expenses: 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.

Cash Equivalents: 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.

Receivables: Receivables are reported at their outstanding unpaid balances, less an allowance for present value discounts and doubtful accounts. Management evaluates the collectability of these receivables on a case-by-case basis considering the Organization's experience with the donor or funding source and their ability to pay, and writes off receivables that are deemed to be uncollectible.

Short-Term Investments: Short-term investments are stated at fair value.

Fair Value Measurements: Assets and liabilities reported at fair value are categorized based upon the level of judgment associated with the inputs used to measure their fair value. Level inputs are defined as follows:

- Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities that the Organization has the ability to access at the measurement date, and where transactions occur with sufficient frequency and volume to provide pricing information on an ongoing basis.
- Level 2: Observable inputs other than those included in Level 1, such as quoted market prices for similar assets or liabilities in active markets, or quoted market prices for identical assets or liabilities in inactive markets, that is markets where there are few transactions, prices are not current, or prices vary substantially over time.
- Level 3: Unobservable inputs reflecting management's own assumptions about the inputs used in pricing the asset or liability. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair values require significant management judgment or estimation.

Property and Equipment: Property and equipment is recorded at cost. The Organization capitalizes all purchases of property and equipment in excess of \$1,000. Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets.

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 certain reported amounts and disclosures. Actual results could differ from those estimates.

Bronx Preparatory Charter School and Affiliate

Notes to Consolidated Financial Statements

Note 1. Organization, Principal Business Activity and Summary of Significant Accounting Policies (Continued)

Prior-Year Summarized Information: 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, 2010, from which the summarized information was derived.

Income Taxes: 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") and from state income taxes. Both the School and Friends are subject to unrelated business income tax ("UBIT"), if applicable. For the years ended June 30, 2011 and 2010, the School and Friends did not owe any UBIT.

Management evaluated the Organization's tax positions and concluded that the Organization had taken no uncertain tax positions that require adjustment to the financial statements to comply with the provisions of this guidance. With few exceptions, the Organization is no longer subject to income tax examinations by U.S. federal, state or local tax authorities for years before 2007, which is the standard statute of limitations look-back period.

Subsequent Events: 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 and/or disclosed in the financial statements. Such evaluation is performed through the date the consolidated financial statements are available to be issued, which was October 27, 2011 for these consolidated financial statements.

Note 2. Fair Value Measurements and Short-Term Investments

Assets measured at fair value on a recurring basis using Level 1 inputs consist of the following short-term investments:

	<u>2011</u>	<u>2010</u>
Money market funds	\$ 3,771,570	\$ 3,768,918
Equities - common stocks	41,341	-
Short-term investments measured at fair value	3,812,911	3,768,918
Certificates of deposit	344,750	342,261
Total short-term investments at June 30	<u>\$ 4,157,661</u>	<u>\$ 4,111,179</u>

Approximately 91% and 92% of the Organization's short-term investments are held by one financial institution at June 30, 2011 and 2010, respectively.

Investment income shown in the accompanying consolidated statements of activities consists of the following:

	<u>2011</u>	<u>2010</u>
Interest income	\$ 9,747	\$ 12,115
Unrealized gain	9,051	-
	<u>\$ 18,798</u>	<u>\$ 12,115</u>

Bronx Preparatory Charter School and Affiliate

Notes to Consolidated Financial Statements

Note 3. Contributions and Other Receivables

Contributions and other receivables include receivables from government contracts and unconditional promises to give, and are due as follows:

	<u>2011</u>	<u>2010</u>
In one year or less	\$ 976,170	\$ 761,915
In more than one year, discounted at 5%	<u>-</u>	<u>86,765</u>
	976,170	848,680
Less allowance on uncollectible pledges	<u>(150,000)</u>	<u>(59,095)</u>
	<u>\$ 826,170</u>	<u>\$ 789,585</u>

Note 4. Property and Equipment, Net

Property and equipment, net, at cost, consists of the following:

	<u>2011</u>	<u>2010</u>	<u>Estimated Useful Life</u>
Computer equipment and software	\$ 699,912	\$ 636,748	3 to 5 years
Furniture and fixtures	383,431	329,270	7 years
Musical instruments	114,499	109,664	7 years
Office equipment	189,235	138,680	7 years
Land at 3872 Third Avenue (a, b)	658,614	658,614	
Building and improvements (a, b)	<u>19,745,459</u>	<u>19,672,828</u>	10 to 39 years
	21,791,150	21,545,804	
Less accumulated depreciation and amortization	<u>(4,314,905)</u>	<u>(3,631,341)</u>	
	<u>\$ 17,476,245</u>	<u>\$ 17,914,463</u>	

- (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.

Note 5. 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, 2011, this loan had a balance of \$3,280,168 and this amount is payable on March 1, 2012.

Bronx Preparatory Charter School and Affiliate

Notes to Consolidated Financial Statements

Note 6. Temporarily Restricted Net Assets

Temporarily restricted net assets include unconditional pledges due in future periods for mortgage payoff.

Note 7. 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.

Note 8. Employee Benefit Plan

The School maintains a defined contribution retirement 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, 2011 and 2010 approximated \$179,000 and \$234,000, respectively. An officer of the School and a member of the board of directors of the School serve as trustees of the Plan.



Independent Auditor's 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 (collectively, the "Organization") as of and for the year ended June 30, 2011, and have issued our report thereon dated October 27, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the Organization is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Organization's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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 27, 2011.

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 27, 2011



Independent Auditor's Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133

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 could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011. The School's major federal programs are 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 each of its major federal programs 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 compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

Internal Control Over Compliance

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 the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, 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.

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 27, 2011

Bronx Preparatory Charter School and Affiliate

**Schedule of Expenditures of Federal Awards
Year Ended June 30, 2011**

Federal Grantor/Program Title	CFDA No.	Federal Expenditures
U.S. Department of Agriculture Passed Through the New York State Education Department:		
Child Nutrition Cluster:		
School Breakfast Program	10.553	\$ 42,485
National School Lunch Program	10.555	<u>217,898</u>
Total Child Nutrition Cluster		<u>260,383</u>
U.S. Department of Education Passed Through the New York State Education Department:		
Grants to Local Educational Agencies (Title IA)	84.010	471,790
ARRA - Title I Grants to Local Educational Agencies	84.389	<u>7,781</u>
Total Title I, Part A Cluster		<u>479,571</u>
Improving Teacher Quality State Grants (Title IIA)	84.367	<u>34,820</u>
ARRA - State Fiscal Stabilization Fund - Race to the Top Incentive Grant	84.395	<u>10,000</u>
Total expenditures of federal awards		<u><u>\$ 784,774</u></u>

Note 1. Basis of Presentation

The schedule of expenditures of federal awards includes the federal grant activity of the School under programs of the federal government for the year ended June 30, 2011 and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of the U.S. Office of Management and Budget ("OMB") Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic consolidated financial statements.

Bronx Preparatory Charter School and Affiliate

**Schedule of Findings and Questioned Costs
Year Ended June 30, 2011**

I. Summary of 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 Programs:

CFDA Number(s)

10.553
10.555

Program Name or Cluster

Child Nutrition Cluster:
School Breakfast Program
National School Lunch Program

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
Year Ended June 30, 2011**

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, 2011

See Auditor's Report

	Bronx Preparatory Charter School	Friends of Bronx Preparatory Charter School, Inc.	Eliminations	Total
ASSETS				
Cash and Cash Equivalents	\$ 447,268	\$ 626,238	\$ -	\$ 1,073,506
Short-Term Investments	1,962,405	2,195,256	-	4,157,661
Contributions and Other Receivables, net	826,170	-	-	826,170
Due From Affiliate	-	47,864	(47,864)	-
Other Assets	10,050	17,160	-	27,210
Property and Equipment, net	1,498,609	15,977,636	-	17,476,245
Total assets	\$ 4,744,502	\$ 18,864,154	\$ (47,864)	\$23,560,792
LIABILITIES AND NET ASSETS				
Liabilities:				
Accounts payable and accrued expenses	\$ 181,750	\$ 38,174	\$ -	\$ 219,924
Note payable	-	3,280,168	-	3,280,168
Due to affiliate	47,864	-	(47,864)	-
Total liabilities	229,614	3,318,342	(47,864)	3,500,092
Net Assets:				
Unrestricted	4,314,888	14,763,805	-	19,078,693
Temporarily restricted	200,000	782,007	-	982,007
Total net assets	4,514,888	15,545,812	-	20,060,700
Total liabilities and net assets	\$ 4,744,502	\$ 18,864,154	\$ (47,864)	\$23,560,792

Bronx Preparatory Charter School and Affiliate

Supplementary Information

Consolidating Statement of Activities

Year Ended June 30, 2011

See Auditor's Report

	Bronx Preparatory Charter School	Friends of Bronx Preparatory Charter School, Inc.	Eliminations	Total
Operating Revenue:				
State and local per pupil operating revenue	\$10,094,139	\$ -	\$ -	\$ 10,094,139
Government grants and contracts	796,781	-	-	796,781
Total operating revenue	10,890,920	-	-	10,890,920
Expenses:				
Program services:				
Academic program	8,904,662	792,176	(704,100)	8,992,738
Enrichment programs	1,390,725	91,546	-	1,482,271
General and administrative	589,726	118,046	-	707,772
Total operating expenses	10,885,113	1,001,768	(704,100)	11,182,781
Excess (deficit) on school operations from government funding	5,807	(1,001,768)	704,100	(291,861)
Support and Other Revenue:				
Contributions:				
Foundations	573,000	92,800	-	665,800
Individuals (including donated stock of \$31,919 and \$19,885 in 2011 and 2010, respectively)	39,170	126,798	-	165,968
Corporations	22,562	15,450	-	38,012
Other in-kind contributions	83,619	-	-	83,619
Benefit event	8,448	-	-	8,448
Investment income	4,766	14,032	-	18,798
Miscellaneous income	13,736	704,550	(704,100)	14,186
Fund-raising expenses	(234,363)	(81,036)	-	(315,399)
Loss on uncollectible pledges	(35,869)	(136,162)	-	(172,031)
Total support and other revenue	475,069	736,432	(704,100)	507,401
Change in net assets	480,876	(265,336)	-	215,540
Net Assets:				
Beginning	4,034,012	15,811,148	-	19,845,160
Ending	\$ 4,514,888	\$ 15,545,812	\$ -	\$ 20,060,700