

**LEADERSHIP PREPARATORY BEDFORD STUYVESANT
CHARTER SCHOOL**

BROOKLYN, NEW YORK

AUDITED FINANCIAL STATEMENTS

OTHER FINANCIAL INFORMATION

**REPORT REQUIRED BY
GOVERNMENT AUDITING STANDARDS**

AND

INDEPENDENT AUDITOR'S REPORTS

JUNE 30, 2015

(With Comparative Totals for 2014)



MENGEL METZGER BARR & CO. LLP

Certified Public Accountants

CONTENTS

<u>AUDITED FINANCIAL STATEMENTS</u>	<u>PAGE</u>
Independent Auditor's Report	3
Statement of Financial Position	5
Statement of Activities and Changes in Net Assets	6
Statement of Functional Expenses	7
Statement of Cash Flows	8
Notes to Financial Statements	9
 <u>OTHER FINANCIAL INFORMATION</u>	
Independent Auditor's Report on Other Financial Information	16
Schedule of Elementary School and Middle School Activities	17
 <u>REPORT REQUIRED BY GOVERNMENT AUDITING STANDARDS</u>	
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>	19
Schedule of Findings and Responses	21

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Leadership Preparatory Bedford Stuyvesant Charter School

Report on the Financial Statements

We have audited the accompanying financial statements of Leadership Preparatory Bedford Stuyvesant Charter School which comprise the statement of financial position as of June 30, 2015, and the related statements of activities and changes in net assets, 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.

Auditor's 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 entity'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 entity'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 Leadership Preparatory Bedford Stuyvesant Charter School as of June 30, 2015, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited Leadership Preparatory Bedford Stuyvesant Charter School's June 30, 2014 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 16, 2014. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2014 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Report Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 20, 2015 on our consideration of Leadership Preparatory Bedford Stuyvesant Charter School's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Leadership Preparatory Bedford Stuyvesant Charter School's internal control over financial reporting and compliance.

Mengel, Metzger, Barw & Co. LLP

Rochester, New York
October 20, 2015

LEADERSHIP PREPARATORY BEDFORD STUYVESANT CHARTER SCHOOL

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2015

(With Comparative Totals for 2014)

<u>ASSETS</u>	<u>June 30,</u>	
	<u>2015</u>	<u>2014</u>
<u>CURRENT ASSETS</u>		
Cash	\$ 2,598,952	\$ 1,775,150
Certificates of deposit	1,251,300	1,247,159
Grants and other receivables	88,881	154,783
Prepaid expenses and other current assets	<u>142,818</u>	<u>71,924</u>
TOTAL CURRENT ASSETS	4,081,951	3,249,016
<u>PROPERTY AND EQUIPMENT, net</u>	<u>411,612</u>	<u>394,514</u>
TOTAL ASSETS	<u>\$ 4,493,563</u>	<u>\$ 3,643,530</u>
 <u>LIABILITIES AND NET ASSETS</u>		
<u>CURRENT LIABILITIES</u>		
Accounts payable and accrued expenses	<u>\$ 410,393</u>	<u>\$ 478,379</u>
TOTAL CURRENT LIABILITIES	410,393	478,379
 <u>NET ASSETS</u>		
Unrestricted:		
Undesignated	2,952,912	2,319,893
Designated for stability fund	1,130,000	845,000
Temporarily restricted	<u>258</u>	<u>258</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 4,493,563</u>	<u>\$ 3,643,530</u>

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

LEADERSHIP PREPARATORY BEDFORD STUYVESANT CHARTER SCHOOL

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

YEAR ENDED JUNE 30, 2015
(With Comparative Totals for 2014)

	Unrestricted	Temporarily restricted	Total	
			Year ended June 30, 2015	2014
Operating revenue and support:				
State and local per pupil operating revenue	\$ 9,520,933	\$ -	\$ 9,520,933	\$ 8,227,403
Government grants	314,110	-	314,110	347,216
Contributions	-	-	-	6,039
Other income	<u>84,139</u>	<u>-</u>	<u>84,139</u>	<u>43,437</u>
TOTAL OPERATING REVENUE AND SUPPORT	9,919,182	-	9,919,182	8,624,095
Expenses:				
Program services - education	8,075,520	-	8,075,520	7,542,010
General and administrative	<u>925,643</u>	<u>-</u>	<u>925,643</u>	<u>901,678</u>
TOTAL EXPENSES	<u>9,001,163</u>	<u>-</u>	<u>9,001,163</u>	<u>8,443,688</u>
CHANGE IN NET ASSETS	918,019	-	918,019	180,407
Net assets at beginning of year	<u>3,164,893</u>	<u>258</u>	<u>3,165,151</u>	<u>2,984,744</u>
NET ASSETS AT END OF YEAR	<u>\$ 4,082,912</u>	<u>\$ 258</u>	<u>\$ 4,083,170</u>	<u>\$ 3,165,151</u>

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

LEADERSHIP PREPARATORY BEDFORD STUYVESANT CHARTER SCHOOL

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2015
(With Comparative Totals for 2014)

	Year ended June 30,			2014
	2015			
	Program services - education	General and administrative	Total	Total
Salaries	\$ 4,861,365	\$ 367,555	\$ 5,228,920	\$ 5,102,331
Payroll taxes and employee benefits	762,399	57,218	819,617	783,771
Occupancy	-	-	-	23,681
Repairs and maintenance	144,038	12,737	156,775	105,962
Textbooks	66,530	-	66,530	35,421
Instructional supplies and assessments	231,069	-	231,069	253,972
Computer and technology support	403,054	-	403,054	280,799
Student enrichment and services	319,982	-	319,982	172,457
Professional development	388,960	-	388,960	356,543
Professional services	-	25,655	25,655	28,986
Telephone	-	77,487	77,487	57,088
Insurance	-	77,082	77,082	77,509
Management fees	665,635	117,465	783,100	682,236
Bad debt expense	2,706	-	2,706	38,343
Office expense	75,759	171,871	247,630	235,783
Depreciation and amortization	154,023	3,729	157,752	184,557
Other	-	14,844	14,844	24,249
	<u>\$ 8,075,520</u>	<u>\$ 925,643</u>	<u>\$ 9,001,163</u>	<u>\$ 8,443,688</u>

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

LEADERSHIP PREPARATORY BEDFORD STUYVESANT CHARTER SCHOOL

STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2015
(With Comparative Totals for 2014)

	June 30,	
	<u>2015</u>	<u>2014</u>
<u>CASH FLOWS - OPERATING ACTIVITIES</u>		
Change in net assets	\$ 918,019	\$ 180,407
Adjustments to reconcile change in net assets to net cash provided from operating activities:		
Bad debt expense	2,706	38,343
Depreciation and amortization	157,752	184,557
Changes in certain assets and liabilities affecting operations:		
Grants and other receivables	63,196	(86,576)
Prepaid expenses and other current assets	(70,894)	(22,744)
Accounts payable and accrued expenses	<u>(67,986)</u>	<u>146,941</u>
NET CASH PROVIDED FROM OPERATING ACTIVITIES	1,002,793	440,928
<u>CASH FLOWS - INVESTING ACTIVITIES</u>		
Purchases of property and equipment	(174,850)	(153,538)
Purchase of certificates of deposit	<u>(4,141)</u>	<u>(4,374)</u>
NET CASH USED FOR INVESTING ACTIVITIES	<u>(178,991)</u>	<u>(157,912)</u>
NET INCREASE IN CASH	823,802	283,016
Cash at beginning of year	<u>1,775,150</u>	<u>1,492,134</u>
CASH AT END OF YEAR	<u>\$ 2,598,952</u>	<u>\$ 1,775,150</u>

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

LEADERSHIP PREPARATORY BEDFORD STUYVESANT CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

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

The Charter School

Leadership Preparatory Bedford Stuyvesant Charter School (the “Charter School”), is an educational corporation operating as a charter school in the borough of Brooklyn, New York City. On December 11, 2005, the Board of Regents of the University of the State of New York granted the Charter School a provisional charter valid for a term of five years which was renewed for an additional five years effective May 3, 2011 through July 31, 2016.

The Charter School’s mission is to ensure academic success for children in grades K through 12. The Charter School prepares students to excel in demanding high schools and colleges and to contribute to their communities as leaders. Through educational success, students earn opportunities in life for themselves and their communities.

Financial Statement presentation

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

These classes of net assets are defined as follows:

Permanently restricted – Net assets resulting from contributions and other inflows of assets whose use by the Charter School is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Charter School. The Charter School had no permanently restricted net assets at June 30, 2015 or 2014.

Temporarily restricted – Net assets resulting from contributions and other inflows of assets whose use by the Charter School is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Charter School pursuant to those stipulations. Temporarily restricted net assets at June 30, 2015 and 2014 are restricted for use for a specific field trip for the students.

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

Revenue and support recognition

Revenue from state and local governments resulting from the Charter School’s charter status and based on the number of students enrolled is recorded when services are performed in accordance with the charter agreement.

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

LEADERSHIP PREPARATORY BEDFORD STUYVESANT CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2015 AND 2014

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

Cont'd

Contributions

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

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

Cash

Cash balances are maintained at financial institutions located in New York and are insured by the Federal Deposits Insurance Corporation up to \$250,000 at each institution. In the normal course of business, the cash account balances at any given time may exceed insured limits. However, the Charter School has not experienced any losses in such accounts and does not believe it is exposed to significant risk in cash.

Certificates of deposit

Certificates of deposit represent certificates of deposit with maturities of twelve months or less. The School has certificates of deposit which mature in 2015. The fair value of the certificates of deposit was determined based on the original cost basis. In the normal course of business, the account balances at any given time may exceed insured limits. However, the Charter School has not experienced any losses in such accounts and does not believe it is exposed to significant risk in certificates of deposit.

Grants and other receivables

Grants and other receivables are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts based on its assessment of the current status of individual receivables from grants, agencies and others. Balances that are still outstanding after management has used reasonable collection efforts are written off against the allowance for doubtful accounts. There was no allowance for doubtful accounts at June 30, 2015 or 2014.

Property and equipment

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

LEADERSHIP PREPARATORY BEDFORD STUYVESANT CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2015 AND 2014

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

Cont'd

Tax exempt status

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

The Charter School has filed for and received income tax exemptions in the jurisdictions where it is required to do so. The Charter School files the Form 990 tax returns in the U.S. federal jurisdiction. With few exceptions, as of June 30, 2015, the Charter School is no longer subject to U.S. Federal income tax examinations by tax authorities for the years ended prior to June 30, 2012. The tax returns for the years ended June 30, 2012 through June 30, 2015 are still subject to potential audit by the IRS. Management of the Charter School believes it has no material uncertain tax positions and, accordingly it has not recognized any liability for unrecognized tax benefits.

Contributed services

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

In-kind Contributions

Gifts and donations other than cash are recorded at fair value at the date of contribution. The Charter School received in-kind contributions of textbooks in the years ended June 30, 2015 and 2014 totaling \$48,618 and \$29,734, respectively. Such in-kind contributions are included in other income on the accompanying statement of activities and changes in net assets for the years ended June 30, 2015 and 2014.

Use of estimates in the preparation of financial statements

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

Comparatives for year ended June 30, 2014

The financial statements include certain prior year summarized comparative information in total but not by net asset class or functional classification. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Charter School's financial statements for the year ended June 30, 2014, from which the summarized information was derived.

Subsequent events

The Charter School has conducted an evaluation of potential subsequent events occurring after the statement of financial position date through October 20, 2015 which is the date the financial statements are available to be issued. No subsequent events requiring disclosure were noted.

LEADERSHIP PREPARATORY BEDFORD STUYVESANT CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2015 AND 2014

NOTE B: RELATED PARTY TRANSACTIONS

Uncommon Schools, Inc. (“USI”), a not-for-profit organization dedicated to helping start and run charter schools, provides management and other administrative support services to the Charter School. The Charter School entered into a five year agreement with USI, dated September 26, 2006, which was renewed for an additional five years on July 1, 2011, under which the Charter School pays USI a service fee of a set percentage of the average number of students enrolled at the Charter School during the school year multiplied by the approved per pupil operating expenses for the school year, and a percentage of all other public entitlement funding receivable during the fiscal year, excluding in-kind contributions and funds from competitive public grants. This percentage is fixed at 8.0% for the 2013 through 2016 fiscal years. The fee incurred for the years ended June 30, 2015 and 2014 was approximately \$783,000 and \$682,000, respectively. At June 30, 2015 and 2014 approximately \$142,000 and \$275,000, respectively, are included in accounts payable relating to USI.

The Charter School is related to Leadership Preparatory Brownsville Charter School, Leadership Preparatory Ocean Hill Charter School, and Leadership Preparatory Canarsie Charter School through common Board representation. As neither of the schools have an economic interest in the net assets of the other school, the facts do not require consolidation of this school with the Charter School in accordance with GAAP.

See Note I regarding a merger with related parties and replacement of the agreement with USI for providing management and other administrative support services.

In December 2013, the Charter School entered into a memorandum of understanding with Ocean Hill Collegiate Charter School and Brooklyn East Collegiate Charter School to co-locate at a shared high school beginning in the 2014-2015 school year. The Charter School is the funding agent and expenses are allocated among applicable schools based on full-time equivalent numbers. For the 2014-2015 school year no students attended the high school from the Charter School therefore no expenses were allocated to the high school during the year ended June 30, 2015. At June 30, 2014, there were certain related party receivables valued at approximately \$29,000, due from both Ocean Hill Collegiate and Brooklyn East Collegiate Charter Schools as a result of shared facilities. There were no receivables or payables for the year ended June 30, 2015 related to the shared facilities.

NOTE C: SCHOOL FACILITY

The Charter School is located in a New York City Department of Education facility. During the year ended June 30, 2014 the Charter School paid a fee to the New York City Department of Education for additional after-school and weekend usage amounting to approximately \$23,700. There were no fees incurred for the year ended June 30, 2015. At June 30, 2015 and 2014, the Board of Trustees has designated \$1,130,000 and \$845,000, respectively, as a stability fund to meet future needs of the Charter School.

LEADERSHIP PREPARATORY BEDFORD STUYVESANT CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2015 AND 2014

NOTE D: PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	<u>June 30,</u>	
	<u>2015</u>	<u>2014</u>
Furniture and fixtures	\$ 210,589	\$ 210,589
Computer software	804,952	707,602
Leasehold improvements	<u>446,842</u>	<u>369,342</u>
	1,462,383	1,287,533
Less accumulated depreciation and amortization	<u>1,050,771</u>	<u>893,019</u>
	<u>\$ 411,612</u>	<u>\$ 394,514</u>

NOTE E: OPERATING LEASES

The Charter School leases office equipment under certain non-cancelable lease agreements expiring through June 2017. The future minimum payments on these agreements are as follows:

<u>Year ending June 30,</u>	<u>Amount</u>
2016	\$ 52,159
2017	<u>18,388</u>
	<u>\$ 70,547</u>

NOTE F: RETIREMENT PLAN

The Charter School sponsors a defined contribution 403(b) plan covering most employees. The Charter School matches employees' contributions up to the lesser of 3% of gross payroll or \$3,500. The Charter School's total contribution to the Plan for the years ended June 30, 2015 and 2014 approximated \$94,000 and \$49,000, respectively.

LEADERSHIP PREPARATORY BEDFORD STUYVESANT CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2015 AND 2014

NOTE G: CONTINGENCY

Certain grants and contracts may be subject to audit by funding sources. Such audits might result in disallowance of costs submitted for reimbursement by the Charter School. Management is of the opinion that such disallowances, if any, will not have a material effect on the accompanying financial statements. Accordingly, no amounts have been provided in the accompanying financial statements for such potential claims.

NOTE H: CONCENTRATIONS

At June 30, 2015 and 2014, approximately 29% and 18%, respectively, of accounts receivable are due from New York State. At June 30, 2015 and 2014 approximately 52% and 43%, respectively, of accounts receivable are due from a grantor. At June 30, 2014, approximately 37% of accounts receivable are due from related parties.

During the years ended June 30, 2015 and 2014, 96% and 95%, respectively, of total operating revenue and support came from per-pupil funding provided by New York State. The per-pupil rate is set annually by the State based on the school district in which the Charter School is located.

NOTE I: MERGER

In December 2014, the Charter School's Board of Trustees approved the merger of the Charter School, as the successor Charter School, under the name Uncommon New York City Charter Schools in conjunction with Excellence Charter Schools, Bedford Stuyvesant Collegiate Charter School, Brownsville Collegiate Charter School, Kings Collegiate Charter School, Brooklyn East Collegiate Charter School, Leadership Preparatory Brownsville Charter School, Leadership Preparatory Canarsie Charter School, Leadership Preparatory Ocean Hill Charter School, and Ocean Hill Collegiate Charter School. The merger was approved on March 6, 2015 by the SUNY Board of Trustees and on June 30, 2015 by the Board of Regents. The merger is effective July 1, 2015. In conjunction with this merger, the Charter School was dissolved and a new agreement is being negotiated with USI to provide management and other administrative services to Uncommon New York City Charter Schools.

LEADERSHIP PREPARATORY BEDFORD STUYVESANT CHARTER SCHOOL

OTHER FINANCIAL INFORMATION

INDEPENDENT AUDITOR'S REPORT ON OTHER FINANCIAL INFORMATION

Board of Trustees
Leadership Preparatory Bedford Stuyvesant Charter School

We have audited the financial statements of Leadership Preparatory Bedford Stuyvesant Charter School as of and for the year ended June 30, 2015, and we have issued our report thereon dated October 20, 2015, which expressed an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The 2015 financial information hereinafter is presented for 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 for the year ended June 30, 2015, as a whole.

Mengel, Metzger, Barr & Co. LLP

Rochester, New York
October 20, 2015

LEADERSHIP PREPARATORY BEDFORD STUYVESANT CHARTER SCHOOL

SCHEDULE OF ELEMENTARY SCHOOL AND MIDDLE SCHOOL ACTIVITIES

YEAR ENDED JUNE 30, 2015

	<u>Elementary School</u>	<u>Middle School</u>	<u>Total</u>
State and local per pupil operating revenue	\$ 5,876,693	\$ 3,644,240	\$ 9,520,933
Government grants	191,049	123,061	314,110
Other income	<u>53,947</u>	<u>30,192</u>	<u>84,139</u>
TOTAL OPERATING REVENUE AND SUPPORT	6,121,689	3,797,493	9,919,182
Salaries	3,028,208	2,200,712	5,228,920
Payroll taxes and employee benefits	493,380	326,237	819,617
Repairs and maintenance	85,080	71,695	156,775
Textbooks	27,427	39,103	66,530
Instructional supplies and assessments	134,929	96,140	231,069
Computer and technology supplies	219,800	183,254	403,054
Student enrichment and services	84,134	235,848	319,982
Professional development	220,904	168,056	388,960
Professional services	18,689	6,966	25,655
Telephone	46,386	31,101	77,487
Insurance	48,146	28,936	77,082
Management fees	483,419	299,681	783,100
Bad debt expense	2,706	-	2,706
Office expense	162,043	85,587	247,630
Depreciation and amortization	116,530	41,222	157,752
Other	<u>11,680</u>	<u>3,165</u>	<u>14,844</u>
TOTAL EXPENSES	<u>5,183,461</u>	<u>3,817,703</u>	<u>9,001,163</u>
CHANGE IN NET ASSETS	<u>\$ 938,228</u>	<u>\$ (20,210)</u>	<u>\$ 918,019</u>

LEADERSHIP PREPARATORY BEDFORD STUYVESANT CHARTER SCHOOL

REPORT REQUIRED BY GOVERNMENT AUDITING STANDARDS

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

Board of Trustees
Leadership Preparatory Bedford Stuyvesant Charter School

We have audited 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, the financial statements of Leadership Preparatory Bedford Stuyvesant Charter School, which comprise the statement of financial position as of June 30, 2015, and the related statements of activities and changes in net assets, functional expenses and cash flows for the year then ended, and the related notes to the financial statements and have issued our report thereon dated October 20, 2015.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness.

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. We consider the deficiency described in the accompanying schedule of findings and responses as Finding 2015-001 to be a material weakness.

Compliance and Other Matters

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

We noted certain matters that we reported to management of Leadership Preparatory Bedford Stuyvesant Charter School in a separate letter dated October 20, 2015.

Leadership Preparatory Bedford Stuyvesant Charter School's Response to Finding

Leadership Preparatory Bedford Stuyvesant Charter School's response to the finding identified during our audit are described in the accompanying schedule of findings and responses. Leadership Preparatory Bedford Stuyvesant Charter School's response was not subjected to auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Mengel, Metzger, Barw & Co. LLP

Rochester, New York
October 20, 2015

LEADERSHIP PREPARATORY BEDFORD STUYVESANT CHARTER SCHOOL

SCHEDULE OF FINDINGS AND RESPONSES

YEAR ENDED JUNE 30, 2015

Finding 2015-001

Statement of Condition

Management fees are calculated by applying a percentage to certain revenues as defined in the memorandum of understanding with Uncommon Schools, Inc. An incorrect percentage was applied in the current year.

Criteria and effect of condition

A fee based on 8% of certain revenues was required to be paid to Uncommon Schools, Inc., during the 2015 fiscal year. Management had recorded a fee based on an incorrect higher percentage of certain revenues leading to an overstatement of expenses and liabilities.

Recommendation

We recommend management ensure a process is in place that correctly records the management fee and subjects the calculation to a review process to identify any possible errors.

Management Response

Uncommon Schools, Inc. has procedures in place that would have identified and corrected this error during other end-of-year closing check points. Going forward, Uncommon Schools, Inc. will adjust the timing of these other cross-checks to ensure that management fees are reviewed on an earlier timeline.

**LEADERSHIP PREPARATORY BEDFORD
STUYVESANT CHARTER SCHOOL**

ADVISORY COMMENT LETTER

JUNE 30, 2015



MENGEL METZGER BARR & CO. LLP

Certified Public Accountants

October 20, 2015

To the Board of Trustees
Leadership Preparatory Bedford Stuyvesant Charter School

In planning and performing our audit of the financial statements of Leadership Preparatory Bedford Stuyvesant Charter School (the “Charter School”) as of and for the year ended June 30, 2015, in accordance with auditing standards generally accepted in the United States of America, we considered the Charter School’s internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Charter School’s internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified a certain deficiency in internal control that we consider to be a material weakness.

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. We consider the following deficiency in the entity’s internal controls to be a material weakness.

Management Fees

During our audit we noted a misstatements of management fees. Management had recorded a fee based on an incorrect higher percentage of certain revenues, this lead to an overstatement of expenses and liabilities.

Recommendation

We recommend the Charter School review the proper memorandum of understanding between the Charter School and Uncommon Schools, Inc. to determine the appropriate percentage for calculating management fees. Further, a review process should be in place to ensure the appropriate percentage is utilized.

* * * * *

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

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

Very truly yours,

Mengel, Metzger, Barr & Co. LLP

MENGEL, METZGER, BARR & CO. LLP