

**LEADERSHIP PREPARATORY BEDFORD STUYVESANT
CHARTER SCHOOL**

BROOKLYN, NEW YORK

AUDITED FINANCIAL STATEMENTS

**REPORT REQUIRED BY
GOVERNMENT AUDITING STANDARDS**

AND

INDEPENDENT AUDITORS' REPORTS

JUNE 30, 2009
(With Comparative Totals for 2008)

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MENGEL METZGER BARR & CO. LLP

Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

Board of Trustees
Leadership Preparatory Bedford Stuyvesant Charter School

We have audited the accompanying statement of financial position of Leadership Preparatory Bedford Stuyvesant Charter School as of June 30, 2009, and the related statements of activities and changes in net assets, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of the Charter School's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the financial statements of Leadership Preparatory Charter School as of and for the year ended June 30, 2008 and, in our report dated October 10, 2008, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Leadership Preparatory Bedford Stuyvesant Charter School as of June 30, 2009, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 26, 2009 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* and should be considered in assessing the results of our audit.

Mengel, Metzger, Barw & Co. LLP

Rochester, New York
October 26, 2009

LEADERSHIP PREPARATORY BEDFORD STUYVESANT CHARTER SCHOOL

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2009

(With Comparative Totals for 2008)

<u>ASSETS</u>	<u>June 30,</u>	
	<u>2009</u>	<u>2008</u>
<u>CURRENT ASSETS</u>		
Cash	\$ 565,536	\$ 369,455
Certificates of deposit	388,592	154,940
Grants and other receivables	291,646	365,119
Prepaid expenses and other current assets	<u>30,927</u>	<u>18,218</u>
TOTAL CURRENT ASSETS	1,276,701	907,732
 <u>PROPERTY AND EQUIPMENT, net</u>	 <u>230,501</u>	 <u>461,331</u>
TOTAL ASSETS	<u>\$ 1,507,202</u>	<u>\$ 1,369,063</u>
 <u>LIABILITIES AND NET ASSETS</u>		
<u>CURRENT LIABILITIES</u>		
Accounts payable and accrued expenses	\$ 243,428	\$ 72,480
TOTAL CURRENT LIABILITIES	<u>243,428</u>	<u>72,480</u>
 <u>NET ASSETS</u>		
Unrestricted:		
Undesignated	698,728	746,583
Designated for building fund	550,000	550,000
Temporarily restricted	<u>15,046</u>	<u>-</u>
	<u>1,263,774</u>	<u>1,296,583</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,507,202</u>	<u>\$ 1,369,063</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, 2009
 (With Comparative Totals for 2008)

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Total</u>	
			<u>Year ended June 30, 2009</u>	<u>2008</u>
Operating revenue and support:				
State and local per pupil operating revenue	\$ 3,121,143	\$ -	\$ 3,121,143	\$ 1,907,451
Government grants	258,445	-	258,445	654,099
Contributions	606,782	-	606,782	510,515
Other income	<u>20,457</u>	<u>15,046</u>	<u>35,503</u>	<u>17,940</u>
TOTAL OPERATING REVENUE AND SUPPORT	4,006,827	15,046	4,021,873	3,090,005
Expenses:				
Program services - education	3,702,298	-	3,702,298	1,963,958
General and administrative	<u>352,384</u>	<u>-</u>	<u>352,384</u>	<u>267,038</u>
TOTAL EXPENSES	<u>4,054,682</u>	<u>-</u>	<u>4,054,682</u>	<u>2,230,996</u>
CHANGE IN NET ASSETS	(47,855)	15,046	(32,809)	859,009
Net assets at beginning of year	<u>1,296,583</u>	<u>-</u>	<u>1,296,583</u>	<u>437,574</u>
NET ASSETS AT END OF YEAR	<u>\$ 1,248,728</u>	<u>\$ 15,046</u>	<u>\$ 1,263,774</u>	<u>\$ 1,296,583</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, 2009
(With Comparative Totals for 2008)

	Year ended June 30,			2008
	2009			
	Program services - education	General and administrative	Total	Total
Salaries	\$ 1,732,659	\$ 151,235	\$ 1,883,894	\$ 1,219,888
Payroll taxes and employee benefits	335,550	29,297	364,847	208,843
Occupancy	175,000	-	175,000	150,000
Repairs and maintenance	79,680	-	79,680	39,422
Textbooks	63,451	-	63,451	19,729
Instructional supplies and assessments	82,706	-	82,706	91,048
Computer and technology support	50,046	-	50,046	7,727
Student enrichment and services	91,033	-	91,033	42,727
Professional development	112,262	-	112,262	72,695
Professional services	-	9,500	9,500	9,610
Telephone	-	16,700	16,700	19,736
Insurance	-	21,980	21,980	14,200
Management fees	282,276	49,813	332,089	204,439
Office expense	15,385	65,572	80,957	52,312
Depreciation	131,980	1,821	133,801	76,163
Moving expenses	33,312	-	33,312	-
Write off of property and equipment	516,958	-	516,958	-
Other	-	6,466	6,466	2,457
	<u>\$ 3,702,298</u>	<u>\$ 352,384</u>	<u>\$ 4,054,682</u>	<u>\$ 2,230,996</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, 2009
(With Comparative Totals for 2008)

	June 30,	
	<u>2009</u>	<u>2008</u>
<u>CASH FLOWS - OPERATING ACTIVITIES</u>		
Change in net assets	\$ (32,809)	\$ 859,009
Adjustments to reconcile change in net assets to net cash provided from operating activities:		
Depreciation	133,801	76,163
Write off of property and equipment	516,958	-
Changes in certain assets and liabilities affecting operations:		
Grants and other receivables	73,473	(355,297)
Prepaid expenses and other current assets	(12,709)	31,049
Accounts payable and accrued expenses	170,948	(45,814)
Deferred revenue	-	(100,000)
NET CASH PROVIDED FROM OPERATING ACTIVITIES	<u>849,662</u>	<u>465,110</u>
<u>CASH FLOWS - INVESTING ACTIVITIES</u>		
Purchases of property and equipment	(419,929)	(425,642)
Purchase of certificates of deposit	<u>(233,652)</u>	<u>(154,940)</u>
NET CASH USED FOR INVESTING ACTIVITIES	<u>(653,581)</u>	<u>(580,582)</u>
NET INCREASE (DECREASE) IN CASH	196,081	(115,472)
Cash at beginning of year	<u>369,455</u>	<u>484,927</u>
CASH AT END OF YEAR	<u>\$ 565,536</u>	<u>\$ 369,455</u>

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

LEADERSHIP PREPARATORY BEDFORD STUYVESANT CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009 AND 2008

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 and renewable upon expiration.

The Board of Trustees approved a change in the name of the Charter School on November 18, 2008 to Leadership Preparatory Bedford Stuyvesant Charter School. The Charter School was formerly known as Leadership Preparatory Charter School. Management is currently in the process of formally amending the School’s charter.

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

Financial Statement presentation

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

These classes of net assets are defined as follows:

Permanently restricted – Net assets resulting from contributions and other inflows of assets whose use by the Charter School is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Charter School. The Charter School had no permanently restricted net assets at June 30, 2009 or 2008.

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, 2009 are restricted for use for a specific field trip for the students. The Charter School had no temporarily restricted net assets at June 30, 2008.

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, 2009 AND 2008

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

The Charter School maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. Effective October 3, 2008 through December 31, 2009, accounts at each institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. In addition, as of October 14, 2008, unlimited deposit insurance coverage is available through December 31, 2009, for certain non-interest bearing transaction accounts at institutions participating in FDIC's Temporary Liquidity Guarantee Program. Uninsured balances at June 30, 2009 approximated \$445,000. The Charter School has not experienced any losses in such accounts.

Certificates of deposit

Certificates of deposit represent certificates of deposit with maturities of seven months or less. Uninsured balances at June 30, 2009 approximated \$389,000. The Charter School has not experienced any losses in such accounts.

Grants and other receivables

Grants and other receivables are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts based on its assessment of the current status of individual receivables from grants, agencies and others. Balances that are still outstanding after management has used reasonable collection efforts are written off against the allowance for doubtful accounts. There was no allowance for doubtful accounts at June 30, 2009 or 2008.

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.

Tax exempt status

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

LEADERSHIP PREPARATORY BEDFORD STUYVESANT CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2009 AND 2008

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

Cont'd

Comparatives for year ended June 30, 2008

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

Contributed services

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

Use of estimates in the preparation of financial statements

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

Subsequent events

The Charter School has conducted an evaluation of potential subsequent events occurring after the balance sheet date through October 26, 2009, which is the date the financial statements are available to be issued. No subsequent events requiring disclosure were noted.

NOTE B: RELATED PARTY TRANSACTIONS

Uncommon Schools, Inc. ("USI"), a not-for-profit organization dedicated to helping start and run charter schools, provides management and other administrative support services to the Charter School. The Charter School entered into a five year agreement with USI, dated September 26, 2006, under which the Charter School pays USI a service fee of a set percentage of the average number of students enrolled at the Charter School during the school year multiplied by the approved per pupil operating expenses for the school year, and a percentage of all other public entitlement funding receivable during the fiscal year, excluding in-kind contributions and funds from competitive public grants. This percentage is fixed at 10% for years 1-3, decreasing to 9.5% in year 4 and 9% in year 5. The fee incurred for the years ended June 30, 2009 and 2008 was approximately \$332,000 and \$204,000, respectively. At June 30, 2009, approximately \$180,000 is included in accounts receivable relating to USI. At June 30, 2008, there were no amounts due from USI. At June 30, 2009 and 2008 approximately \$171,400 and \$8,600, respectively, are included in accounts payable relating to USI.

The Charter School leases its facilities from USI for \$14,583 per month through June 30, 2008 renewable up to three times for a twelve month period each. Rent expense incurred during the years ended June 30, 2009 and 2008 was \$175,000 and \$150,000, respectively. There are no future minimum lease payments due under this lease at June 30, 2009.

LEADERSHIP PREPARATORY BEDFORD STUYVESANT CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2009 AND 2008

NOTE B: RELATED PARTY TRANSACTIONS, Cont'd

The Charter School is related to Friends of Leadership Prep, ("FOLP") through common Board representation and management. FOLP is an organization that was established to generate funding and encourage the development of charter schools. FOLP transferred \$50,000 and \$25,000 to the Charter School during the years ended June 30, 2009 and 2008, respectively. The facts exclude FOLP from provisions of Financial Accounting Standards Board Statement 136, "Transfers of Assets to a Not-For-Profit Organization or Charitable Trust that Raises or Holds Contributions for Others" which would otherwise require consolidation with the Charter School.

NOTE C: SCHOOL FACILITY

As part of the New York City Chancellor's Charter School Initiative, the New York City Department of Education has committed space to the Charter School at no charge starting with the 2009-2010 school year. The facilities and services provided by the New York City Department of Education to the Charter School are outlined in a Shared Facility Use Agreement. On June 30, 2009, the Charter School moved from leased space (as described in Note B) to the space provided by the New York City Department of Education to avoid future rent expenses, which totaled \$175,000 for the year ended June 30, 2009. In connection with the move, the Charter School wrote off approximately \$517,000 of property improvements made to the previous facility. It is management's understanding that USI intends to lease this space to another network charter school in the future. At June 30, 2009 and 2008, the Board of Trustees has designated \$550,000 as a building fund to be available to meet future needs of the Charter School.

NOTE D: PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	<u>June 30,</u>	
	<u>2009</u>	<u>2008</u>
Furniture and fixtures	\$ 110,630	\$ 42,760
Computer software	262,612	189,431
Leasehold improvements	-	320,741
	<u>373,242</u>	<u>552,932</u>
Less accumulated depreciation and amortization	<u>142,741</u>	<u>91,601</u>
	<u>\$ 230,501</u>	<u>\$ 461,331</u>

LEADERSHIP PREPARATORY BEDFORD STUYVESANT CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2009 AND 2008

NOTE E: COMMITMENT

The Charter School leases office equipment under a non-cancelable lease agreement expiring in October 2013. The future minimum payments on this agreement are as follows:

<u>Year ending June 30,</u>	<u>Amount</u>
2010	\$ 9,007
2011	9,007
2012	9,007
2013	9,007
2014	<u>2,552</u>
	<u>\$ 38,580</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 3% of gross payroll. The Charter School's total contribution to the Plan for the years ended June 30, 2009 and 2008 approximated \$16,400 and \$9,800, respectively.

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: CONCENTRATION

At June 30, 2009 and 2008, approximately 38% and 83% of accounts receivable are due from New York State, respectively.

During the years ended June 30, 2009 and 2008, 78% and 62%, 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.

LEADERSHIP PREPARATORY BEDFORD STUYVESANT CHARTER SCHOOL

REPORT REQUIRED BY GOVERNMENT AUDITING STANDARDS



MENGEL METZGER BARR & CO. LLP

Certified Public Accountants

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Trustees
Leadership Preparatory Bedford Stuyvesant Charter School

We have audited the financial statements of Leadership Preparatory Bedford Stuyvesant Charter School as of June 30, 2009 and the year then ended, and have issued our report thereon dated October 26, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Leadership Preparatory Bedford Stuyvesant Charter School's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Leadership Preparatory Bedford Stuyvesant Charter School's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Charter School's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Charter School's ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting principles generally accepted in the United States of America, such that there is more than a remote likelihood that a misstatement of the Charter School's financial statements that is more than inconsequential will not be prevented or detected by the Charter School's internal control. We consider the deficiency described in the accompanying schedule of findings and responses, item 2009-1, to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Charter School's internal control.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Leadership Preparatory 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 26, 2009.

The Charter School's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. We did not audit the Charter School's response and, accordingly, we express no opinion on it.

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

Mengel, Metzger, Barw & Co. LLP

Rochester, New York

October 26, 2009

LEADERSHIP PREPARATORY BEDFORD STUYVESANT CHARTER SCHOOL

SCHEDULE OF FINDINGS AND RESPONSES

YEAR ENDED JUNE 30, 2009

Finding 2009-1

Statement of condition

During our audit two significant journal entries relating to revenue recognition and prepaid rent were detected. We noted a significant misstatement of receivables and revenue related to the No Child Left Behind (NCLB) funding as a result of not considering cash advances received as part of the year-end receivable and revenue calculation. We also noted prepaid rent and rent expense were significantly misstated. The rent for July 2009 was paid in June 2009 and was included in rent expense rather than prepaid rent.

Criteria and effect of conditions

When the NCLB revenue was recorded at year-end, the advance received during the year was not taken into consideration and the full amount of the funding was recorded as revenue and receivable, although a portion of the total had already been collected. Grant revenue should not be recorded in excess of the award amount. Payments of expenses relating to subsequent periods should be properly recorded as prepaid expenses. Revenue, expenses, and assets were misstated and required adjustment. This is considered to be a significant deficiency.

Recommendation

We recommend cash advances be properly considered when calculating the receivable and the revenue recognized on grants. We recommend annually the Charter School review the NYSED.gov website to reconcile total NCLB grants awarded and paid to total revenue and accounts receivable. This will ensure grant funding is properly recognized.

We recommend the Charter School review expenses at year end to ensure proper recording of amounts relating to future periods as prepaid expenses.

Management response

We will review guidelines for expenses vs. prepaid expenses (assets) with all members of our staff. (Guidelines for prepaid expenses will be reviewed in detail by accounting staff. In addition, rent expense lines will be double checked at the end of the fiscal year to confirm that prepaid lease payments have been booked accordingly). To avoid the overstatement of revenue issue in the future, which occurred because an invoice had been filed previously but not taken into account during the final invoicing, all prior invoices will be reviewed as a final step before preparing additional invoices.