

**LEADERSHIP PREPARATORY BEDFORD STUYVESANT  
CHARTER SCHOOL**

**BROOKLYN, NEW YORK**

**AUDITED FINANCIAL STATEMENTS**

**REPORT REQUIRED BY  
GOVERNMENT AUDITING STANDARDS**

**AND**

**INDEPENDENT AUDITORS' REPORTS**

**JUNE 30, 2011**  
**(With Comparative Totals for 2010)**

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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, 2011, 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 Bedford Stuyvesant Charter School as of and for the year ended June 30, 2010 and, in our report dated October 22, 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, 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, 2011, 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 18, 2011 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 18, 2011

LEADERSHIP PREPARATORY BEDFORD STUYVESANT CHARTER SCHOOL

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2011

(With Comparative Totals for 2010)

<u>ASSETS</u>	<u>June 30,</u>	
	<u>2011</u>	<u>2010</u>
<u>CURRENT ASSETS</u>		
Cash	\$ 618,830	\$ 778,859
Certificates of deposit	1,095,660	392,797
Grants and other receivables	150,670	147,674
Prepaid expenses and other current assets	<u>23,916</u>	<u>51,828</u>
TOTAL CURRENT ASSETS	1,889,076	1,371,158
 <u>PROPERTY AND EQUIPMENT, net</u>	 <u>420,005</u>	 <u>455,165</u>
TOTAL ASSETS	<u>\$ 2,309,081</u>	<u>\$ 1,826,323</u>
 <u>LIABILITIES AND NET ASSETS</u>		
<u>CURRENT LIABILITIES</u>		
Accounts payable and accrued expenses	\$ 137,736	\$ 148,322
TOTAL CURRENT LIABILITIES	<u>137,736</u>	<u>148,322</u>
 <u>NET ASSETS</u>		
Unrestricted:		
Undesignated	1,611,634	1,118,290
Designated for building fund	550,000	550,000
Temporarily restricted	<u>9,711</u>	<u>9,711</u>
	<u>2,171,345</u>	<u>1,678,001</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 2,309,081</u>	<u>\$ 1,826,323</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, 2011  
(With Comparative Totals for 2010)

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Total</u>	
			<u>Year ended June 30, 2011</u>	<u>2010</u>
Operating revenue and support:				
State and local per pupil operating revenue	\$ 5,390,171	\$ -	\$ 5,390,171	\$ 4,158,016
Government grants	266,848	-	266,848	298,786
Contributions	55,068	-	55,068	90,970
Other income	<u>9,762</u>	<u>-</u>	<u>9,762</u>	<u>9,597</u>
	5,721,849	-	5,721,849	4,557,369
 Net assets released from restrictions	 <u>-</u>	 <u>-</u>	 <u>-</u>	 <u>-</u>
<b>TOTAL OPERATING REVENUE AND SUPPORT</b>	<b>5,721,849</b>	<b>-</b>	<b>5,721,849</b>	<b>4,557,369</b>
 Expenses:				
Program services - education	4,578,801	-	4,578,801	3,743,605
General and administrative	<u>649,704</u>	<u>-</u>	<u>649,704</u>	<u>399,537</u>
<b>TOTAL EXPENSES</b>	<b><u>5,228,505</u></b>	<b><u>-</u></b>	<b><u>5,228,505</u></b>	<b><u>4,143,142</u></b>
 <b>CHANGE IN NET ASSETS</b>	<b>493,344</b>	<b>-</b>	<b>493,344</b>	<b>414,227</b>
 Net assets at beginning of year	<u>1,668,290</u>	<u>9,711</u>	<u>1,678,001</u>	<u>1,263,774</u>
<b>NET ASSETS AT END OF YEAR</b>	<b><u>\$ 2,161,634</u></b>	<b><u>\$ 9,711</u></b>	<b><u>\$ 2,171,345</u></b>	<b><u>\$ 1,678,001</u></b>

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, 2011  
(With Comparative Totals for 2010)

	Year ended June 30,			2010
	2011			
Program services - education	General and administrative	Total	Total	
Salaries	\$ 2,900,061	\$ 266,237	\$ 3,166,298	\$ 2,426,453
Payroll taxes and employee benefits	518,676	49,102	567,778	436,910
Occupancy	1,020	-	1,020	19,869
Repairs and maintenance	31,026	47,848	78,874	61,571
Textbooks	37,443	-	37,443	26,442
Instructional supplies and assessments	117,267	-	117,267	132,769
Computer and technology support	108,323	-	108,323	59,510
Student enrichment and services	135,661	-	135,661	51,368
Professional development	155,206	-	155,206	167,731
Professional services	-	15,988	15,988	13,821
Telephone	-	48,209	48,209	30,093
Insurance	-	51,642	51,642	45,149
Management fees	429,990	75,881	505,871	419,930
Bad debt expense	-	-	-	11,665
Office expense	27,739	81,549	109,288	97,206
Depreciation and amortization	116,389	4,108	120,497	121,696
Moving expenses	-	-	-	4,681
Other	-	9,140	9,140	16,278
	<u>\$ 4,578,801</u>	<u>\$ 649,704</u>	<u>\$ 5,228,505</u>	<u>\$ 4,143,142</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, 2011  
(With Comparative Totals for 2010)

	June 30,	
	<u>2011</u>	<u>2010</u>
<b><u>CASH FLOWS - OPERATING ACTIVITIES</u></b>		
Change in net assets	\$ 493,344	\$ 414,227
Adjustments to reconcile change in net assets to net cash provided from operating activities:		
Bad debt expense	-	11,665
Depreciation and amortization	120,497	121,696
Changes in certain assets and liabilities affecting operations:		
Grants and other receivables	(2,996)	132,307
Prepaid expenses and other current assets	27,912	(20,901)
Accounts payable and accrued expenses	<u>(10,586)</u>	<u>(95,106)</u>
NET CASH PROVIDED FROM OPERATING ACTIVITIES	628,171	563,888
<b><u>CASH FLOWS - INVESTING ACTIVITIES</u></b>		
Purchases of property and equipment	(85,337)	(346,360)
Purchase of certificates of deposit	<u>(702,863)</u>	<u>(4,205)</u>
NET CASH USED FOR INVESTING ACTIVITIES	<u>(788,200)</u>	<u>(350,565)</u>
NET (DECREASE) INCREASE IN CASH	(160,029)	213,323
Cash at beginning of year	<u>778,859</u>	<u>565,536</u>
CASH AT END OF YEAR	<u>\$ 618,830</u>	<u>\$ 778,859</u>

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



LEADERSHIP PREPARATORY BEDFORD STUYVESANT CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011 AND 2010

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 March 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. 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, 2011 or 2010.

*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, 2011 and 2010 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, 2011 AND 2010

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 balances at a financial institution located in New York. Cash account balances are insured by the Federal Deposit Insurance Corporation up to \$250,000 at the institution. In addition, certain non-interest bearing transaction accounts at the financial institution are 100% insured through December 31, 2012. In the normal course of business, the interest bearing 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. In the normal course of business, the interest bearing 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, 2011 or 2010.

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, 2011 AND 2010

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 Form 990 tax returns in the U.S. federal jurisdiction. With few exceptions, as of June 30, 2011, 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 2008. The tax returns for the years ended June 30, 2008 through June 30, 2011 are still subject to potential audit by the IRS. The Charter School adopted the provisions of FASB ASC 740-10 Accounting for Uncertainty in Income Taxes (formerly FIN 48), and its related amendment on July 1, 2009. Management of the Charter School believes it has no material uncertain tax positions and, accordingly it will not recognize 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.

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, 2010

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, 2010, 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 18, 2011, 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, 2011 AND 2010

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, 2011 and 2010 was approximately \$506,000 and \$420,000, respectively. At June 30, 2011 and 2010, approximately \$800 and \$5,600, respectively, are included in accounts receivable relating to USI. At June 30, 2011 and 2010 approximately \$73,100 and \$107,700, respectively, are included in accounts payable relating to USI.

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. There were no transfers from FOLP during the years ended June 30, 2011 or 2010. The facts exclude FOLP from the provisions of FASB ASC 958-605 (formerly SFAS No. 136, "Transfers of Assets to a Not-For-Profit Organization or Charitable Trust that Raises or Holds Contributions for Others") and FASB ASC 958-810, which would otherwise require consolidation with the Charter School.

The Charter School is related to Leadership Preparatory Brownsville Charter School and Leadership Preparatory Ocean Hill 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 FASB ASC 958-810 (formerly SOP 94-3) "Reporting of Related Entities by Not-For-Profit Organizations".

NOTE C: SCHOOL FACILITY

The Charter School is located in a New York City Department of Education facility. During the years ended June 30, 2011 and 2010, the Charter School paid a fee to the New York City Department of Education for additional after-school and weekend usage amounting to approximately \$1,000 and \$20,000, respectively. At June 30, 2011 and 2010, the Board of Trustees has designated \$550,000 as a building fund to meet future needs of the Charter School.

LEADERSHIP PREPARATORY BEDFORD STUYVESANT CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2011 AND 2010

NOTE D: PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	June 30,	
	<u>2011</u>	<u>2010</u>
Furniture and fixtures	\$ 195,016	\$ 189,427
Computer software	350,436	293,037
Leasehold improvements	<u>259,487</u>	<u>237,138</u>
	804,939	719,602
Less accumulated depreciation and amortization	<u>384,934</u>	<u>264,437</u>
	<u>\$ 420,005</u>	<u>\$ 455,165</u>

NOTE E: OPERATING LEASES

The Charter School leases office equipment under certain non-cancelable lease agreements expiring through December 2012. The future minimum payments on these agreements are as follows:

<u>Year ending June 30,</u>	<u>Amount</u>
2012	\$ 30,512
2013	<u>9,711</u>
	<u>\$ 40,223</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, 2011 and 2010 approximated \$40,200 and \$28,900, respectively.

LEADERSHIP PREPARATORY BEDFORD STUYVESANT CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2011 AND 2010

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, 2011 and 2010, approximately 58% and 47% of accounts receivable are due from New York State, respectively.

During the years ended June 30, 2011 and 2010, 94% and 91%, 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**

**OTHER FINANCIAL INFORMATION**



# MENGEL METZGER BARR & CO. LLP

Certified Public Accountants

## INDEPENDENT AUDITORS' REPORT ON OTHER FINANCIAL INFORMATION

Board of Trustees  
Leadership Preparatory Bedford Stuyvesant Charter School

Our report on our audit of the basic financial statements of Leadership Preparatory Bedford Stuyvesant Charter School as of June 30, 2011 and for the year then ended appears on page 3. That audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The financial information hereinafter is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Mengel, Metzger, Barr & Co. LLP*

Rochester, New York  
October 18, 2011



LEADERSHIP PREPARATORY BEDFORD STUYVESANT CHARTER SCHOOL

SCHEDULE OF ELEMENTARY SCHOOL AND MIDDLE SCHOOL ACTIVITIES

YEAR ENDED JUNE 30, 2011

	<u>Elementary School</u>	<u>Middle School</u>	<u>Total</u>
State and local per pupil operating revenue	\$ 4,916,726	\$ 473,445	\$ 5,390,171
Government grants	227,619	39,229	266,848
Contributions	68	55,000	55,068
Other income	<u>9,005</u>	<u>757</u>	<u>9,762</u>
TOTAL OPERATING REVENUE AND SUPPORT	5,153,418	568,431	5,721,849
Salaries	2,714,320	451,978	3,166,298
Payroll taxes and employee benefits	474,884	92,894	567,778
Occupancy	510	510	1,020
Repairs and maintenance	69,564	9,310	78,874
Textbooks	29,966	7,477	37,443
Instructional supplies and assessments	100,623	16,644	117,267
Computer and technology supplies	60,682	47,641	108,323
Student enrichment and services	114,398	21,263	135,661
Professional development	140,552	14,654	155,206
Professional services	13,566	2,422	15,988
Telephone	35,163	13,046	48,209
Insurance	48,584	3,058	51,642
Management fees	458,881	46,990	505,871
Office expense	100,225	9,063	109,288
Depreciation and amortization	114,847	5,650	120,497
Other	<u>7,520</u>	<u>1,620</u>	<u>9,140</u>
TOTAL EXPENSES	<u>4,484,285</u>	<u>744,220</u>	<u>5,228,505</u>
CHANGE IN NET ASSETS	<u>\$ 669,133</u>	<u>\$ (175,789)</u>	<u>\$ 493,344</u>

**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 (the "Charter School") as of and for the year ended June 30, 2011 and have issued our report thereon dated October 18, 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***

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.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies in internal control such that there is a reasonable possibility that a material misstatement of the 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. However, we identified a certain deficiency in internal control over financial reporting, described in the accompanying schedule of findings and responses, item 2011-1, to be a significant deficiency in internal control over financial reporting. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

**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 18, 2011.

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 18, 2011

LEADERSHIP PREPARATORY BEDFORD STUYVESANT CHARTER SCHOOL

SCHEDULE OF FINDINGS AND RESPONSES

YEAR ENDED JUNE 30, 2011

**Finding 2011-1**

Statement of condition

We noted during our audit a significant misstatement of receivables and revenue related to the state and local per pupil operating revenue.

Criteria and effect of conditions

There was an error in calculating the state and local per pupil operating revenue. The General Education Full Time Equivalent was misstated for a number of students which led to revenue and accounts receivable being overstated. This is considered to be a significant deficiency.

Recommendation

We recommend the state and local per pupil operating revenue be reviewed thoroughly for accuracy on an annual basis.

Management response

Uncommon Schools will refine the year-end student reconciliation process to guide a thorough review by the DOOs and network COOs. Additionally, beginning for the 2011-2012 school year, the New York City Department of Education reconciliation will now be completed online, in an effort to reduce the number of errors found in their previously manual process.