

**LEADERSHIP PREPARATORY OCEAN HILL
CHARTER SCHOOL**

BROOKLYN, NEW YORK

AUDITED FINANCIAL STATEMENTS

OTHER FINANCIAL INFORMATION

**REPORT REQUIRED BY
GOVERNMENT AUDITING STANDARDS**

AND

INDEPENDENT AUDITOR'S REPORTS

JUNE 30, 2013

(With Comparative Totals for 2012)



MENGEL METZGER BARR & CO. LLP

Certified Public Accountants

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MENGEL METZGER BARR & CO. LLP

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Leadership Preparatory Ocean Hill Charter School

Report on the Financial Statements

We have audited the accompanying financial statements of Leadership Preparatory Ocean Hill Charter School (the "Charter School") which comprise the statement of financial position as of June 30, 2013, 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 of 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.

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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 Ocean Hill Charter School as of June 30, 2013, 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 Ocean Hill Charter School's June 30, 2012 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 17, 2012. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2012 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 17, 2013 on our consideration of Leadership Preparatory Ocean Hill 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 Ocean Hill Charter School's internal control over financial reporting and compliance.

Mengel, Metzger, Barw & Co. LLP

Rochester, New York
October 17, 2013

LEADERSHIP PREPARATORY OCEAN HILL CHARTER SCHOOL

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2013

(With Comparative Totals for 2012)

<u>ASSETS</u>	<u>June 30,</u>	
	<u>2013</u>	<u>2012</u>
<u>CURRENT ASSETS</u>		
Cash	\$ 1,082,886	\$ 843,227
Grants and other receivables	60,234	271,440
Prepaid expenses	94,551	22,284
TOTAL CURRENT ASSETS	<u>1,237,671</u>	<u>1,136,951</u>
<u>PROPERTY AND EQUIPMENT, net</u>	<u>589,876</u>	<u>415,365</u>
TOTAL ASSETS	<u>\$ 1,827,547</u>	<u>\$ 1,552,316</u>
 <u>LIABILITIES AND NET ASSETS</u>		
<u>CURRENT LIABILITIES</u>		
Accounts payable and accrued expenses	<u>199,782</u>	<u>146,996</u>
TOTAL CURRENT LIABILITIES	199,782	146,996
<u>NET ASSETS, unrestricted</u>		
Undesignated	<u>1,627,765</u>	<u>1,405,320</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,827,547</u>	<u>\$ 1,552,316</u>

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

LEADERSHIP PREPARATORY OCEAN HILL CHARTER SCHOOL

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

YEAR ENDED JUNE 30, 2013
(With Comparative Totals for 2012)

	<u>Year ended June 30,</u>	
	<u>2013</u>	<u>2012</u>
Operating revenue and support:		
State and local per pupil operating revenue	\$ 4,279,514	\$ 3,128,937
Government grants	251,509	633,761
Contributions	-	100,000
Other income	<u>20,357</u>	<u>104</u>
TOTAL OPERATING REVENUE AND SUPPORT	4,551,380	3,862,802
Expenses:		
Program services - education	3,842,261	2,907,146
General and administrative	<u>486,674</u>	<u>381,005</u>
TOTAL EXPENSES	<u>4,328,935</u>	<u>3,288,151</u>
CHANGE IN NET ASSETS	222,445	574,651
Unrestricted net assets at beginning of year	<u>1,405,320</u>	<u>830,669</u>
UNRESTRICTED NET ASSETS AT END OF YEAR	<u>\$ 1,627,765</u>	<u>\$ 1,405,320</u>

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

LEADERSHIP PREPARATORY OCEAN HILL CHARTER SCHOOL

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2013
(With Comparative Totals for 2012)

	Program services - education	General and administrative	Total	
			Year ended June 30,	
			2013	2012
Salaries	\$ 2,376,787	\$ 164,096	\$ 2,540,883	\$ 1,806,026
Payroll taxes and employee benefits	372,233	25,697	397,930	287,625
Repairs and maintenance	42,966	35,775	78,741	67,743
Textbooks	30,914	-	30,914	55,953
Occupancy	14,729	-	14,729	4,904
Instructional supplies and assessments	111,251	-	111,251	122,754
Computer and technology support	94,422	-	94,422	92,504
Student enrichment and services	53,289	-	53,289	43,726
Professional development	166,281	-	166,281	143,618
Professional services	-	15,931	15,931	15,046
Telephone	-	54,127	54,127	42,361
Insurance	-	36,598	36,598	29,634
Management fees	381,749	67,367	449,116	323,370
Office expense	12,414	51,727	64,141	58,516
Depreciation and amortization	185,226	1,898	187,124	180,017
Bad debt expense	-	10,487	10,487	226
Other	-	22,971	22,971	14,128
	<u>\$ 3,842,261</u>	<u>\$ 486,674</u>	<u>\$ 4,328,935</u>	<u>\$ 3,288,151</u>

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

LEADERSHIP PREPARATORY OCEAN HILL CHARTER SCHOOL

STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2013
(With Comparative Totals for 2012)

	<u>Year ended June 30,</u>	
	<u>2013</u>	<u>2012</u>
<u>CASH FLOWS - OPERATING ACTIVITIES</u>		
Change in net assets	\$ 222,445	574,651
Adjustments to reconcile change in net assets to net cash provided from operating activities:		
Bad debt expense	10,487	226
Depreciation and amortization	187,124	180,017
Changes in certain assets and liabilities affecting operations:		
Grants and other receivables	200,719	25,435
Prepaid expenses	(72,267)	7,926
Accounts payable and accrued expenses	52,786	63,226
Deferred revenue	-	(100,000)
NET CASH PROVIDED FROM OPERATING ACTIVITIES	<u>601,294</u>	<u>751,481</u>
<u>CASH FLOWS - INVESTING ACTIVITIES</u>		
Purchases of property and equipment	<u>(361,635)</u>	<u>(393,464)</u>
NET CASH USED FOR INVESTING ACTIVITIES	<u>(361,635)</u>	<u>(393,464)</u>
NET INCREASE IN CASH	239,659	358,017
Cash at beginning of year	<u>843,227</u>	<u>485,210</u>
CASH AT END OF YEAR	<u>\$ 1,082,886</u>	<u>\$ 843,227</u>

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

LEADERSHIP PREPARATORY OCEAN HILL CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013 AND 2012

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

The Charter School

Leadership Preparatory Ocean Hill Charter School (the “Charter School”) is an educational corporation operating as a charter school in the borough of Brooklyn, New York City. On October 28, 2008, 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 Charter School has applied for a charter extension up through and including July 31, 2015 to complete its fifth year of operation during its initial charter period.

The Charter School’s mission is to ensure academic success for children in grades K through 12 from Central Brooklyn. 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, 2013 or 2012.

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. The Charter School had no temporarily restricted net assets at June 30, 2013 or 2012.

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 OCEAN HILL CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2013 AND 2012

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 FDIC 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.

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 either June 30, 2013 or 2012.

Property and equipment

Property and equipment are recorded at cost. Depreciation and amortization 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 OCEAN HILL CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2013 AND 2012

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. The tax returns for the years ended June 30, 2010 through June 30, 2013 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 totaling \$20,254 in the year ended June 30, 2013 and are included in other income in the accompanying statement of activities and changes in net assets for the year ended June 30, 2013.

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, 2012

The financial statements include certain prior year summarized comparative information in total but not by 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, 2012, 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 17, 2013 which is the date the financial statements are available to be issued. No subsequent events requiring disclosure were noted.

LEADERSHIP PREPARATORY OCEAN HILL CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2013 AND 2012

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 July 1, 2009, 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, 2013 and 2012, was approximately \$449,000 and \$323,000, respectively. At June 30, 2013 and 2012, approximately \$84,200 and \$26,800, 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 year and period ended June 30, 2013 or June 30, 2012. The facts exclude FOLP from the provisions GAAP, which would otherwise require consolidation with the Charter School.

The Charter School is related to Leadership Preparatory Brownsville Charter School, Leadership Preparatory Bedford Stuyvesant Charter School, Leadership Preparatory Canarsie and Friends of Leadership Prep through common Board representation. As none of the schools have an economic interest in the net assets of any other school, the facts do not require consolidation of any of these schools with the Charter School in accordance with GAAP. At June 30, 2012 there was approximately \$18,000 included in accounts payable, relating to Leadership Preparatory Brownsville Charter School. There were no such related party amounts included in accounts payable at June 30, 2013.

NOTE C: SCHOOL FACILITY

The Charter School is located in a New York City Department of Education facility. During the years ended June 30, 2013 and 2012, the Charter School paid approximately \$15,000 and \$5,000, respectively, to the New York City Department of Education for additional after-school and weekend usage.

LEADERSHIP PREPARATORY OCEAN HILL CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2013 AND 2012

NOTE D: PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	<u>Year ended June 30,</u>	
	<u>2013</u>	<u>2012</u>
Furniture and fixtures	\$ 89,398	\$ 78,013
Computers and software	590,334	518,167
Leasehold improvements	<u>409,199</u>	<u>131,115</u>
	1,088,931	727,295
Less accumulated depreciation and amortization	<u>499,055</u>	<u>311,930</u>
	<u>\$ 589,876</u>	<u>\$ 415,365</u>

NOTE E: 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, 2013 and 2012 approximated \$35,500 and \$30,500, respectively.

NOTE F: 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 G: CONCENTRATIONS

At June 30, 2013 and 2012, approximately 32% and 78% of accounts receivable are due from New York State, respectively. At June 30, 2013 and 2012 approximately 63% and 22% of accounts receivable are due from a grantor, respectively.

During the years ended June 30, 2013 and 2012, 94% and 81%, 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 OCEAN HILL CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2013 AND 2012

NOTE H: OPERATING LEASES

The Charter School leases office equipment under a non-cancelable lease agreement expiring August 2017. The future minimum payments on the agreement are as follows:

<u>Year ending June 30,</u>	<u>Amount</u>
2014	\$ 18,947
2015	18,947
2016	12,159
2017	1,800
	<u>\$ 51,853</u>

LEADERSHIP PREPARATORY OCEAN HILL CHARTER SCHOOL

OTHER FINANCIAL INFORMATION



MENGEL METZGER BARR & CO. LLP

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT ON OTHER FINANCIAL INFORMATION

Board of Trustees
Leadership Preparatory Ocean Hill Charter School

We have audited the financial statements of Leadership Preparatory Ocean Hill Charter School as of and for the year ended June 30, 2013, and have issued our report thereon dated October 17, 2013, which contained an unmodified opinion on those financial statements. Our audit was prepared for the purpose of forming an opinion on the financial statements as a whole. The 2013 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, 2013 taken as a whole.

Mengel, Metzger, Barr & Co. LLP

Rochester, New York
October 17, 2013

LEADERSHIP PREPARATORY OCEAN HILL CHARTER SCHOOL

SCHEDULE OF ELEMENTARY SCHOOL AND MIDDLE SCHOOL ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2013

	<u>Elementary School</u>	<u>Middle School</u>	<u>Total</u>
State and local per pupil operating revenue	\$ 4,279,514	\$ -	\$ 4,279,514
Government grants	251,509	-	251,509
Other income	<u>20,357</u>	<u>-</u>	<u>20,357</u>
TOTAL OPERATING REVENUE AND SUPPORT	4,551,380	-	4,551,380
Salaries	2,508,383	32,500	2,540,883
Payroll taxes and employee benefits	396,304	1,626	397,930
Repairs and maintenance	78,716	25	78,741
Textbooks	30,914	-	30,914
Occupancy	14,729	-	14,729
Instructional supplies and assessments	111,251	-	111,251
Computer and technology supplies	94,092	330	94,422
Student enrichment and services	53,289	-	53,289
Professional development	164,492	1,789	166,281
Professional services	13,635	2,296	15,931
Telephone	54,127	-	54,127
Insurance	36,598	-	36,598
Management fees	449,116	-	449,116
Office expense	64,126	15	64,141
Depreciation and amortization	187,124	-	187,124
Bad debt expense	10,487	-	10,487
Other	<u>22,943</u>	<u>28</u>	<u>22,971</u>
TOTAL EXPENSES	<u>4,290,326</u>	<u>38,609</u>	<u>4,328,935</u>
CHANGE IN NET ASSETS	<u>\$ 261,054</u>	<u>\$ (38,609)</u>	<u>\$ 222,445</u>

LEADERSHIP PREPARATORY OCEAN HILL 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 Ocean Hill 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 Ocean Hill Charter School, which comprise the statement of financial position as of June 30, 2013, 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 17, 2013.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Leadership Preparatory Ocean Hill 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 Ocean Hill Charter School in a separate letter dated October 17, 2013.

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.

Restricted Use

This report is intended solely for the information and use of the Board of Trustees, management, federal, state and local awarding agencies, the State University of New York, the New York State Education Department 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 17, 2013