

ROCHDALE EARLY ADVANTAGE CHARTER SCHOOL

FINANCIAL STATEMENTS

JUNE 30, 2017

(WITH SUMMARIZED COMPARATIVE INFORMATION FOR THE YEAR ENDED JUNE 30, 2016)

ROCHDALE EARLY ADVANTAGE CHARTER SCHOOL

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Rochdale Early Advantage Charter School

Report on the Financial Statements

We have audited the accompanying financial statements of Rochdale Early Advantage Charter School (the "School"), which comprise the statement of financial position as of June 30, 2017, and the related statements of activities, 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 School'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 School'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 Rochdale Early Advantage Charter School as of June 30, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited Rochdale Early Advantage Charter School's 2016 financial statements and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 26, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 26, 2017, on our consideration of Rochdale Early Advantage Charter School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Rochdale Early Advantage Charter School's internal control over financial reporting and compliance.

MBAF CPAs, LLC

New York, NY
October 26, 2017

ROCHDALE EARLY ADVANTAGE CHARTER SCHOOL

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2017

(WITH SUMMARIZED COMPARATIVE INFORMATION FOR JUNE 30, 2016)

ASSETS	2017	2016
Cash	\$ 2,358,396	\$ 1,755,145
Cash - restricted	100,180	100,171
Grants and other receivables	252,274	170,715
Prepaid expenses and other assets	7,500	22,500
Property and equipment, net	185,454	189,064
Due from construction company	-	400,000
	\$ 2,903,804	\$ 2,637,595
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued expenses	\$ 59,778	\$ 33,709
Accrued salaries and other payroll related expenses	306,013	260,443
Due to NYC Department of Education	30,069	4,510
	395,860	298,662
NET ASSETS - UNRESTRICTED	2,507,944	2,338,933
	\$ 2,903,804	\$ 2,637,595

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

ROCHDALE EARLY ADVANTAGE CHARTER SCHOOL

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2017

(WITH SUMMARIZED COMPARATIVE INFORMATION FOR THE YEAR ENDED JUNE 30, 2016)

	2017	2016
OPERATING REVENUE		
State and local per pupil operating revenue	\$ 4,859,089	\$ 4,280,284
Federal grants	95,170	103,638
State grants	16,812	19,252
	<u>4,971,071</u>	<u>4,403,174</u>
EXPENSES		
Program		
General education	3,337,991	3,132,985
Special education	623,498	503,546
Management and general	852,033	437,602
	<u>4,813,522</u>	<u>4,074,133</u>
SURPLUS FROM SCHOOL OPERATIONS	<u>157,549</u>	<u>329,041</u>
SUPPORT AND OTHER INCOME		
Contributions, grants and other income	4,708	7,409
Benefit income, net of direct expenses of \$3,343	6,744	-
Interest income	10	10
	<u>11,462</u>	<u>7,419</u>
CHANGE IN NET ASSETS	169,011	336,460
NET ASSETS - BEGINNING OF YEAR	<u>2,338,933</u>	<u>2,002,473</u>
NET ASSETS - END OF YEAR	<u>\$ 2,507,944</u>	<u>\$ 2,338,933</u>

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

(WITH SUMMARIZED COMPARATIVE INFORMATION FOR THE YEAR ENDED JUNE 30, 2016)

Less: expenses deducted directly from support on the statement of activities

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ROCHDALE EARLY ADVANTAGE CHARTER SCHOOL

STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2017

(WITH SUMMARIZED COMPARATIVE INFORMATION FOR THE YEAR ENDED JUNE 30, 2016)

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from operating revenue	\$ 4,915,071	\$ 4,258,131
Other cash received	26,453	7,409
Cash paid to employees and suppliers	<u>(4,243,596)</u>	<u>(3,816,217)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>697,928</u>	<u>449,323</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	<u>(94,677)</u>	<u>(62,051)</u>
NET INCREASE IN CASH	603,251	387,272
CASH - BEGINNING OF YEAR	<u>1,755,145</u>	<u>1,367,873</u>
CASH - END OF YEAR	<u>\$ 2,358,396</u>	<u>\$ 1,755,145</u>
Reconciliation of change in net assets to net cash provided by operating activities:		
Change in net assets	\$ 169,011	\$ 336,460
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	98,287	76,624
Write off of due from construction company	300,000	-
Write off of uncollected security deposit	15,000	-
Changes in operating assets and liabilities:		
Cash - restricted	(9)	(10)
Grants receivable	(81,559)	(149,553)
Prepaid expenses and other assets	-	20,402
Accounts payable and accrued expenses	26,069	(6,818)
Accrued salaries and other payroll related expenses	45,570	7,708
Due to NYC Department of Education	25,559	4,510
Due from construction company	<u>100,000</u>	<u>160,000</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 697,928</u>	<u>\$ 449,323</u>

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

ROCHDALE EARLY ADVANTAGE CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017

1. NATURE OF THE ORGANIZATION

Rochdale Early Advantage Charter School (the "School") is a New York State, not-for-profit educational corporation that was incorporated on December 15, 2009 to operate a charter school pursuant to Article 56 of the Educational Law of the State of New York. On January 15, 2008, the Board of Regents of the University of the State of New York granted the School a provisional charter. The charter is renewable by the Board of Regents of the University of the State of New York once the term expires. The School opened its doors in the Fall of 2010 in Rochdale, New York with a rigorous academic program and a highly structured and supportive school culture. The School received an extension to their charter term to June 30, 2022.

The School, as determined by the Internal Revenue Service, is exempt from Federal income tax under section 501(a) of the Internal Revenue Code ("IRC") as an organization described in Section 501(c)(3) of the IRC and a similar provision under New York State income tax laws. The School has also been classified as an entity that is not a private foundation within the meaning of Section 509(a) of the IRC and qualifies for deductible contributions as provided in section 170(b)(1)(A)(ii) of the IRC.

The School's primary sources of income are from government funding.

The School operates classes for students in pre-kindergarten to 5th grades.

2. SIGNIFICANT ACCOUNTING POLICIES

Financial Statement Presentation

The School's financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP").

The classification of the School's net assets and its support, revenues and expenses is based on the existence or absence of donor-imposed restrictions. It requires that the amounts for each of the three classes of net assets – permanently restricted, temporarily restricted, and unrestricted – be displayed in a statement of financial position and that the amounts of change in each of those classes of net assets be displayed in a statement of activities.

These classes are defined as follows:

Permanently Restricted – Net assets resulting from contributions and other inflows of assets whose use by the 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 School.

Temporarily Restricted – Net assets resulting from contributions and other inflows of assets whose use by the School are limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the School pursuant to those stipulations. When such stipulations end or are fulfilled, such temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities. However, if a restriction is fulfilled in the same period in which the contribution is received, the School reports the support as unrestricted.

Unrestricted – The part of net assets that is neither permanently nor temporarily restricted by donor-imposed stipulations.

The School has no temporarily or permanently restricted net assets at June 30, 2017.

ROCHDALE EARLY ADVANTAGE CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash - Restricted

At June 30, 2017 and 2016, an escrow account of \$100,180 and \$100,171, respectively, is held aside for contingency purposes. The New York City Department of Education ("NYCDOE") requires that the School maintains an escrow account of at least \$70,000.

Grants and Other Receivables

Grants and other receivables represent amounts due from federal and state grants. Grants and other receivables are expected to be collected within one year, are recorded at net realizable value, and amount to \$252,274 and \$170,715 at June 30, 2017 and 2016, respectively. The School has determined that no allowance for uncollectible accounts for grants and other receivables is necessary at June 30, 2017. Such estimate is based on management's assessments of the creditworthiness of its grantors, the aged basis of its receivables, as well as current economic conditions and historical information.

Revenue Recognition

Revenue from state and local governments resulting from the School's charter status is based on the number of students enrolled and 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 School when qualifying expenditures are incurred and billable. Funds received in advance for which qualifying expenditures have not been incurred would be reflected as refundable advances from state and local government grants in the accompanying statement of financial position.

Property and Equipment

Property and equipment are stated at cost and are depreciated on the straight-line method over the estimated useful lives of the assets. Leasehold improvements are amortized over the lesser of the life of the asset or the period covered by the charter. The School has established a \$1,000 threshold above which assets are evaluated to be capitalized. Property and equipment acquired with certain government contract funds is recorded as an expense pursuant to the terms of the contract in which the government funding source retains ownership of the property. Maintenance and repairs are charged to expense as incurred; major renewals and betterments are capitalized.

Impairments

The School reviews long-lived assets to determine whether there has been any permanent impairment whenever events or circumstances indicate the carrying amount of an asset may not be recoverable. If the sum of the expected future undiscounted cash flows is less than the carrying amount of the assets, the School recognizes an impairment loss. No impairment losses were required to be recognized for the years ended June 30, 2017 and 2016.

Advertising

The School expenses advertising costs as incurred. The School incurred \$3,200 and \$2,130 of advertising costs for the years ended June 30, 2017 and 2016, respectively.

Functional Allocation of Expenses

Expenses that can be directly identified with the program or supporting service to which they relate are charged accordingly. Other expenses by function have been allocated among program and supporting service classifications using bases determined by management based upon benefits received.

ROCHDALE EARLY ADVANTAGE CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Estimates

The preparation of financial statements in conformity with U.S. GAAP 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

Subsequent Events

The School has evaluated events through October 26, 2017, which is the date the financial statements were available to be issued.

Comparative Financial Information

The June 30, 2017 financial statements include certain prior period summarized comparative information in total but not by net asset class. In addition, only certain of the notes to the financial statements for the year ended June 30, 2016 are presented. As a result, the June 30, 2016 comparative information does not include sufficient detail to constitute a presentation in conformity with U.S. GAAP. Accordingly, such June 30, 2016 information should be read in conjunction with the School's financial statements for the year ended June 30, 2016, from which the summarized information was derived.

Income Taxes

The School follows the accounting standard for uncertainty in income taxes. The standard prescribes a minimum recognition threshold and measurement methodology that a tax position taken or expected to be taken in a tax return is required to meet before being recognized in the financial statements. It also provides guidance for derecognition, classification, interest and penalties, disclosure, and transition.

The School files informational returns in the federal and New York State jurisdictions. With few exceptions, the School is no longer subject to federal, state, or local income tax examinations for fiscal years before 2014.

The School believes that it has appropriate support for the positions taken on its tax returns. Nonetheless, the amounts ultimately paid, if any, upon resolution of the issues raised by the taxing authorities may differ materially from the amounts filed. Management believes that its nonprofit status would be sustained upon examination.

Should there be interest on underpayments of income tax, the School would classify it as "Interest Expense." The School would classify penalties in connection with underpayments of income tax as "Other Expense."

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued an accounting standards update which affects the revenue recognition of entities that enter into either (1) certain contracts to transfer goods or services to customers or (2) certain contracts for the transfer of nonfinancial assets. The update indicates an entity should recognize revenue in an amount that reflects the consideration the entity expects to be entitled to in exchange for the goods or services transferred by the entity. The update is to be applied to the beginning of the year of implementation or retrospectively and is effective for annual periods beginning after December 15, 2018 and in interim periods in annual periods beginning after December 15, 2019. Early application is permitted but no earlier than annual reporting periods beginning after December 31, 2016. The School is currently evaluating the effect the update will have on its financial statements.

ROCHDALE EARLY ADVANTAGE CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recent Accounting Pronouncements (Continued)

In February 2016, the FASB issued an accounting standards update which amends existing lease guidance. The update requires lessees to recognize a right-of-use asset and related lease liability for many operating leases now currently off-balance sheet under current U.S. GAAP. Accounting by lessors remains largely unchanged from current U.S. GAAP. The update is effective using a modified retrospective approach for fiscal years beginning after December 15, 2019, and for interim periods within fiscal years beginning after December 15, 2020, with early application permitted. The School is currently evaluating the effect the update will have on its financial statements.

In August 2016, the FASB issued an accounting standards update which aims to improve information provided to creditors, donors, grantors, and others while also reducing complexity and costs. The update is the first phase of a project regarding not-for-profits which aims to improve and simplify net asset classification requirements and improve the information presented and disclosed in financial statements about liquidity, cash flows, and financial performance. The update is effective retrospectively for financial statements issued for fiscal years beginning after December 15, 2017, and interim periods within fiscal years beginning after December 15, 2018, with earlier application permitted. The School is currently evaluating the effect the update will have on its financial statements.

In November 2016, the FASB issued an accounting standards update which amends cash flow statement presentation of restricted cash. The update requires amounts generally described as restricted cash and restricted cash equivalents be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The update is effective retrospectively for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019, with early adoption permitted. The School is currently evaluating the effect the update will have on its financial statements.

3. PROPERTY AND EQUIPMENT

Property and equipment consist of the following as of June 30,

	2017	2016	Estimated Useful Lives
Furniture and fixtures	\$ 150,175	\$ 140,744	7 years
Computer hardware and software	204,753	169,921	3 years
Equipment	28,929	28,929	5 years
Software	1,029	1,029	3 years
			Lesser of the life of the asset or the period covered by the charter
Leasehold improvements	419,679	369,265	
	804,565	709,888	
Less: Accumulated depreciation and amortization	619,111	520,824	
	\$ 185,454	\$ 189,064	

Depreciation and amortization expense for the years ended June 30, 2017 and 2016 was \$98,287 and \$76,624, respectively.

ROCHDALE EARLY ADVANTAGE CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017

3. PROPERTY AND EQUIPMENT (CONTINUED)

In prior years, the School paid a total of \$560,000 for construction costs, which was put on hold in fiscal year 2015. During the year ended June 30, 2016, the construction project was terminated. \$160,000 of the construction costs was for architect and construction related fees. This amount was expensed during the year ended June 30, 2016. During the year ended June 30, 2017, the School received \$100,000 of the \$400,000 that was due to be refunded from the construction company. The remaining balance of \$300,000 is not expected to be refunded and was written off during the year ended June 30, 2017.

4. AGREEMENTS FOR SCHOOL FACILITIES

The School entered into a sublease agreement with the New Jerusalem Baptist Church ("NJBC"), effective July 1, 2010. The School is obligated under a non-cancelable sub-lease for office and classroom space expiring in June 30, 2020. Monthly minimum rental payments under the lease are \$29,000 per month for the term of the lease.

The School entered into a one year lease agreement with Rescue Church of Christ effective September 1, 2016. The minimum monthly lease payments for the term of the lease are \$8,060. On September 1, 2017, the School renewed their lease with Rescue Church of Christ through June 30, 2018. The minimum monthly lease payments for the term of the lease are \$8,060.

Future minimum rental payments are as follows:

June 30,	
2018	\$ 428,600
2019	348,000
2020	348,000
Total	\$ 1,124,600

Rent expense for the years ended June 30, 2017 and 2016 was \$428,600 and \$438,000, respectively, which is included in the accompanying statement of functional expenses under rent expense.

5. RISK MANAGEMENT

- A. The School is exposed to various risks of loss related to torts; thefts of, damage to, and destruction of assets; injuries to employees; and natural disasters. The School maintains commercial insurance to help protect itself from such risks.
- B. The School entered into contractual relationships with certain governmental funding sources. The governmental agencies may request return of funds as a result of noncompliance by the School, as well as additional funds for the use of facilities. The accompanying financial statements make no provision for the possible disallowance or refund.
- C. The School's charter is up for renewal on June 30, 2022. Although the School anticipates that this renewal will be granted by the authorizers, no assurance can be provided that this will occur.

ROCHDALE EARLY ADVANTAGE CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017

6. PENSION PLAN

The School adopted a 403(B) plan (the "Plan") which covers most of the employees. The Plan is a defined contribution plan. Full time employees are eligible to enroll in the Plan on a monthly date with no minimum service time required. The Plan provides for the School to contribute up to 2% of participating employees' salaries. The School contribution becomes fully vested after 6 years. For the years ended June 30, 2017 and 2016, pension expense for the School was \$28,137 and \$30,090, respectively, which is included in payroll taxes and employee benefits in the accompanying statement of functional expenses.

7. CONCENTRATIONS

- A. Financial instruments that potentially subject the School to a concentration of credit risk include cash accounts at a major financial institution that, at times, exceeded the Federal Deposit Insurance Corporation insured limit of \$250,000.
- B. The School received approximately 97% of its revenue from the NYCDOE for the year ended June 30, 2017.
- C. The School's grants and other receivables consist of two major grantors at June 30, 2017.
- D. The School's payables consist of four major vendors at June 30, 2017.



Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards

To the Board of Trustees
Rochdale Early Advantage 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 Rochdale Early Advantage Charter School (the "School"), which comprise the statement of financial position as of June 30, 2017, and the related statements of activities, 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 26, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the 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 the School's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 School'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 the 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 the School in a separate letter dated October 26, 2017.

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

MBAF CPAs, LLC

New York, NY
October 26, 2017