

# **Rochdale Early Advantage Charter School**

## ***Communication With Those Charged With Governance***

October 29, 2018



October 29, 2018

To the Audit Committee  
Rochdale Early Advantage Charter School

We have audited the financial statements of Rochdale Early Advantage Charter School (the “School”) for the year ended June 30, 2018 and are prepared to issue our report thereon dated October 29, 2018. Professional standards require that we provide you with the following information related to our audit. This letter is divided into two sections: 1) required communications from the auditors to those with audit oversight responsibilities and 2) opportunities for strengthening internal controls or enhancing operating efficiency and our related recommendations.

## **REQUIRED COMMUNICATIONS**

### **A. Our Responsibility under U.S. Generally Accepted Auditing Standards:**

As stated in our engagement letter April 4, 2018, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities. Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement. As part of our audit, we considered the internal control of Rochdale Early Advantage Charter School. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control. We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters.

### **B. Planned Scope and Timing of the Audit:**

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters in July 2018.

### **C. Auditor Independence:**

We affirm that MBAF CPAs, LLC is independent with respect to Rochdale Early Advantage Charter School.

### **D. Qualitative Aspects of Accounting Practices:**

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Rochdale Early Advantage Charter School are described in Note 2 to the financial statements. As described therein, the School elected to implement the application of an accounting pronouncement pertaining to accounting for uncertain tax positions. We noted no transactions entered into by the School during the

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year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

**E. Accounting Estimates Used in the Financial Statements:**

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate's affecting the financial statements was:

**Allowance for Doubtful Accounts:**

As of June 30, 2018, Rochdale Early Advantage Charter School recorded grants and other receivables of \$150,019. Management concluded that no allowance for doubtful accounts was necessary. Management calculated based on the assessment of the credit-worthiness of the School's donors, the aged basis of the receivables, as well as economic conditions and historical information. Based on our audit procedures which included a discussion with the School fiscal Consultant and a test of subsequent collections, we concur with management's conclusion.

**Depreciation:**

Management's estimate of depreciation is based on estimated useful lives of assets. We evaluated the estimated useful of assets in comparison to generally accepted accounting principles in determining that it is reasonable in relation to the financial statements taken as a whole.

**Functional Statement Allocation:**

Management's estimate of the allocation of functional expenses is directly identified with the program or supporting service to which they relate. We evaluated the key factors and assumptions used to develop the estimate in determining that it is reasonable in relation to the financial statements taken as a whole.

**F. Sensitive Disclosures Affecting the Financial Statements:**

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure(s) affecting the financial statements were:

The disclosure of Risk Management in Note 5 to the financial statements which describes various risks to which the School is exposed.

**G. Corrected and Uncorrected Misstatements:**

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Except as those made known to you, management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by

management were material, either individually or in the aggregate, to the financial statements taken as a whole. We will identify those adjustments proposed both corrected and uncorrected:

**Proposed and Corrected:**

**Corrected:**

In the current year, there was 3 audit adjustments that increased net assets by \$9,187. The most significant adjusting journal entry was as follows:

- 1) To correct per pupil revenue earned by \$6,327.

In the prior year, there were 6 audit adjustments that decreased net assets by approximately \$336,000.

**Proposed and Uncorrected:**

There were no audit adjustments proposed and uncorrected.

**H. Audit Difficulties and Disagreements with Management:**

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors' report.

We are pleased to report that no such disagreements arose during the course of our audit.

**I. Management Representations:**

We have requested certain representations from management that are included in the management representation letter dated October 29, 2018.

**J. Management Consultations with Other Independent Accountants:**

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the School's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

**K. Other Audit Findings or Issues:**

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the School's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

We wish to thank management and personnel for their support and assistance during our audit. We would be pleased to further discuss the contents of this report with you at your convenience.

This information is intended solely for the use of the Audit Committee, Board of Trustees, and management of Rochdale Early Advantage Charter School and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

MBAF CPAs, LLC

MBAF CPAs, LLC

# **ROCHDALE EARLY ADVANTAGE CHARTER SCHOOL**

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## **FINANCIAL STATEMENTS**

**JUNE 30, 2018**

**(WITH SUMMARIZED COMPARATIVE INFORMATION FOR THE YEAR ENDED JUNE 30, 2017)**

## 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, 2018, 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.

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### ***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, 2018, 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 2017 financial statements and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 26, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017 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 29, 2018, 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 29, 2018

**ROCHDALE EARLY ADVANTAGE CHARTER SCHOOL**

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2018

(WITH SUMMARIZED COMPARATIVE INFORMATION FOR JUNE 30, 2017)

<b>ASSETS</b>	<b>2018</b>	<b>2017</b>
Cash	\$ 1,956,168	\$ 2,358,396
Cash - restricted	100,190	100,180
Grants and other receivables	150,019	252,274
Prepaid expenses and other assets	7,500	7,500
Property and equipment, net	132,351	185,454
Construction in progress - deposit	1,500,000	-
	<b>\$ 3,846,228</b>	<b>\$ 2,903,804</b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES</b>		
Accounts payable and accrued expenses	\$ 41,190	\$ 59,778
Accrued salaries and other payroll related expenses	412,487	306,013
Due to NYC Department of Education	-	30,069
	453,677	395,860
NET ASSETS - UNRESTRICTED	3,392,551	2,507,944
	<b>\$ 3,846,228</b>	<b>\$ 2,903,804</b>

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

**ROCHDALE EARLY ADVANTAGE CHARTER SCHOOL**

## STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2018

(WITH SUMMARIZED COMPARATIVE INFORMATION FOR THE YEAR ENDED JUNE 30, 2017)

	2018	2017
OPERATING REVENUE		
State and local per pupil operating revenue	\$ 5,329,681	\$ 4,859,089
Federal grants	151,935	95,170
State grants	16,213	16,812
	<u>5,497,829</u>	<u>4,971,071</u>
EXPENSES		
Program		
General education	2,991,008	3,337,991
Special education	961,163	623,498
Management and general	828,625	852,033
Fundraising	63,257	-
	<u>4,844,053</u>	<u>4,813,522</u>
SURPLUS FROM SCHOOL OPERATIONS	<u>653,776</u>	<u>157,549</u>
SUPPORT AND OTHER INCOME		
Refund from construction company	200,000	-
Contributions, grants and other income	20,838	4,708
Benefit income, net of direct expenses of \$22,971 and \$3,343 for the years ended June 30, 2018 and 2017, respectively	9,983	6,744
Interest income	10	10
	<u>230,831</u>	<u>11,462</u>
CHANGE IN NET ASSETS	884,607	169,011
NET ASSETS - BEGINNING OF YEAR	<u>2,507,944</u>	<u>2,338,933</u>
NET ASSETS - END OF YEAR	<u>\$ 3,392,551</u>	<u>\$ 2,507,944</u>

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

**ROCHDALE EARLY ADVANTAGE CHARTER SCHOOL**

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2018

(WITH SUMMARIZED COMPARATIVE INFORMATION FOR THE YEAR ENDED JUNE 30, 2017)

		Program Services			Supporting Services		2018	2017
		General Education	Special Education	Total	Management and General	Fundraising		
FUNCTIONAL EXPENSES								
<b>Personnel Services Costs</b>	<b>No. of Positions</b>							
Administrative staff personnel	4	\$ 88,422	\$ 58,948	\$ 147,370	\$ 132,633	\$ 14,737	\$ 294,740	\$ 594,880
Instructional personnel	37	1,533,447	483,275	2,016,722	-	-	2,016,722	1,820,570
Non-instructional personnel	6	-	-	-	376,185	7,677	383,862	180,307
Total salaries and staff	47	1,621,869	542,223	2,164,092	508,818	22,414	2,695,324	2,595,757
Payroll taxes and employee benefits		456,031	140,317	596,348	91,206	14,032	701,586	495,969
Legal fees		-	-	-	4,135	-	4,135	1,007
Accounting and audit services		-	-	-	65,893	-	65,893	62,844
Professional fees - other		168,516	51,851	220,367	33,703	5,185	259,255	268,577
Rent expense		396,040	120,520	516,560	72,538	13,502	602,600	428,600
Repairs and maintenance		16,923	5,207	22,130	3,385	521	26,036	24,653
Insurance		16,359	5,033	21,392	3,272	503	25,167	37,243
Equipment and furnishings		2,312	711	3,023	462	71	3,556	-
Utilities		9,061	1,600	10,661	1,040	160	11,861	-
Staff development		29,600	9,108	38,708	5,920	911	45,539	46,946
Student and staff recruitment		13,189	2,603	15,792	1,562	-	17,354	14,866
Technology		25,113	7,727	32,840	5,023	773	38,636	51,981
Supplies and materials		76,628	23,578	100,206	15,326	2,358	117,890	151,758
Food services		-	-	-	-	-	-	4,413
Student services		72,044	24,015	96,059	-	-	96,059	158,622
Office expense		15,243	4,690	19,933	3,049	469	23,451	53,517
Advertising		-	-	-	-	-	-	3,200
Depreciation and amortization		51,121	15,730	66,851	10,224	1,573	78,648	98,287
Miscellaneous expense		20,959	6,250	27,209	3,069	785	31,063	282
Write off of due from construction company		-	-	-	-	-	-	300,000
Write off of uncollected security deposit		-	-	-	-	-	-	15,000
Cost of direct benefit to donors		-	-	-	-	22,971	22,971	3,343
		2,991,008	961,163	3,952,171	828,625	86,228	4,867,024	4,816,865
Less: direct expenses deducted directly from benefit income in the statement of activities		-	-	-	-	(22,971)	(22,971)	(3,343)
		<b>\$ 2,991,008</b>	<b>\$ 961,163</b>	<b>\$ 3,952,171</b>	<b>\$ 828,625</b>	<b>\$ 63,257</b>	<b>\$ 4,844,053</b>	<b>\$ 4,813,522</b>

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

**ROCHDALE EARLY ADVANTAGE CHARTER SCHOOL**

## STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2018

(WITH SUMMARIZED COMPARATIVE INFORMATION FOR THE YEAR ENDED JUNE 30, 2017)

	2018	2017
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from operating revenue	\$ 5,570,015	\$ 4,915,071
Other cash received	30,831	26,462
Refund from construction company	200,000	-
Cash paid to employees and suppliers	(4,677,519)	(4,243,596)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>1,123,327</b>	<b>697,937</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Deposit of construction in progress	(1,500,000)	-
Purchase of property and equipment	(25,545)	(94,677)
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(1,525,545)</b>	<b>(94,677)</b>
<b>NET (DECREASE) INCREASE IN CASH</b>	<b>(402,218)</b>	<b>603,260</b>
<b>CASH AND CASH - RESTRICTED - BEGINNING OF YEAR</b>	<b>2,458,576</b>	<b>1,855,316</b>
<b>CASH AND CASH - RESTRICTED - END OF YEAR</b>	<b>\$ 2,056,358</b>	<b>\$ 2,458,576</b>
<b>Reconciliation of change in net assets to net cash provided by operating activities:</b>		
Change in net assets	\$ 884,607	\$ 169,011
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	78,648	98,287
Write off of due from construction company	-	300,000
Write off of uncollected security deposit	-	15,000
Changes in operating assets and liabilities:		
Grants and other receivables	102,255	(81,559)
Accounts payable and accrued expenses	(18,588)	26,069
Accrued salaries and other payroll related expenses	106,474	45,570
Due to NYC Department of Education	(30,069)	25,559
Due from construction company	-	100,000
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>\$ 1,123,327</b>	<b>\$ 697,937</b>
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:</b>		
<b>Cash and cash - restricted consist of:</b>		
Cash	\$ 1,956,168	\$ 2,358,396
Cash - restricted	100,190	100,180
<b>Total</b>	<b>\$ 2,056,358</b>	<b>\$ 2,458,576</b>

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

# ROCHDALE EARLY ADVANTAGE CHARTER SCHOOL

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## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

### 1. NATURE OF THE ORGANIZATION

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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 5<sup>th</sup> grades.

### 2. SIGNIFICANT ACCOUNTING POLICIES

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#### 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, 2018 and 2017.

## ROCHDALE EARLY ADVANTAGE CHARTER SCHOOL

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### NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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### **Cash - Restricted**

At June 30, 2018 and 2017, an escrow account of \$100,190 and \$100,180, 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 \$150,019 and \$252,274 at June 30, 2018 and 2017, respectively. The School has determined that no allowance for uncollectible accounts for grants and other receivables is necessary at June 30, 2018. 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 recognized for the years ended June 30, 2018 and 2017.

### **Advertising**

The School expenses advertising costs as incurred. The School incurred \$3,200 of advertising costs for the year ended June 30, 2017. There were no advertising costs for the year ended June 30, 2018.

### **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

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### NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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### 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 29, 2018, which is the date the financial statements were available to be issued.

### Comparative Financial Information

The June 30, 2018 financial statements include certain prior period summarized comparative information. In addition, only certain of the notes to the financial statements for the year ended June 30, 2017 are presented. As a result, the June 30, 2017 comparative information does not include sufficient detail to constitute a presentation in conformity with U.S. GAAP. Accordingly, such June 30, 2017 information should be read in conjunction with the School's financial statements for the year ended June 30, 2017, 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 2015.

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."

### Adoption of Accounting Pronouncement

In fiscal year 2018, the School adopted the accounting standards update which amends the 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-year and end-of-year total amounts shown on the statement of cash flows. The School adopted the update retrospectively for fiscal year 2017. The adoption of this update had no effect on the School's change in net assets or cash flows.



## ROCHDALE EARLY ADVANTAGE CHARTER SCHOOL

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### NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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### 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.

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 June 2018, the FASB issued an accounting standards update in an effort to clarify and improve the scope and the accounting guidance for contributions received and contributions made. The FASB believes the update should assist entities in (1) evaluating whether transactions should be accounted for as contributions (non-reciprocal transactions) within the scope of not-for-profit guidance, or as an exchange (reciprocal) transaction subject to other guidance and (2) determining whether a contribution is conditional or not. The update is effective on a modified prospective basis for fiscal years beginning after December 15, 2018, and interim periods within annual periods beginning after December 15, 2019, with early adoption permitted. The School is currently evaluating the potential accounting, transition, and disclosure effects the update will have on its financial statements.

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**ROCHDALE EARLY ADVANTAGE CHARTER SCHOOL**

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**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018****3. PROPERTY AND EQUIPMENT**

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

	2018	2017	Estimated Useful Lives
Furniture and fixtures	\$ 150,175	\$ 150,175	7 years
Computer hardware and software	224,488	204,753	3 years
Equipment	34,739	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	419,679	
	830,110	804,565	
Less: Accumulated depreciation and amortization	697,759	619,111	
	<u>\$ 132,351</u>	<u>\$ 185,454</u>	

Depreciation and amortization expense for the years ended June 30, 2018 and 2017 was \$78,648 and \$98,287, respectively.

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. During the year ended June 30, 2017, the School wrote off the remaining \$300,000 because it did not expect to receive an additional refund. During the year ended June 30, 2018, however, the School received \$200,000 from the construction company.

**4. AGREEMENTS FOR SCHOOL FACILITIES**

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The School entered into a sublease agreement with the New Jerusalem Baptist Church ("NJBC"), effective July 1, 2010. Monthly minimum rental payments under the lease are \$29,000 per month for the term of the lease.

The School amended their lease with NJBC effective January 1, 2018. The School is obligated under a non-cancelable sub-lease for office and classroom space expiring in June 30, 2023. The terms of the new lease includes monthly rental payments of \$58,000 through September 1, 2019, and a security deposit of \$1,500,000 that will be applied towards the cost of acquiring, designing, and constructing property. Upon occupancy of additional space after completion of renovations, rental payments will increase to \$75,000 a month. As of June 30, 2018, there are no future construction commitments. Rent expense for the years ended June 30, 2018 and 2017 was \$602,600 and \$428,600, respectively, which is included in the accompanying statement of functional expense under rent expense.

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, 2018, the School renewed their lease with Rescue Church of Christ through June 30, 2019. The minimum monthly lease payments for the term of the lease are \$8,060.

## ROCHDALE EARLY ADVANTAGE CHARTER SCHOOL

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### NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

#### 4. AGREEMENTS FOR SCHOOL FACILITIES (CONTINUED)

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Future minimum rental payments are as follows:

June 30,	
2019	\$ 776,600
2020	696,000
2021	696,000
2022	696,000
2023	696,000
Total	<u>\$ 3,560,600</u>

#### 5. RISK MANAGEMENT

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- 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.

#### 6. PENSION PLAN

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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, 2018 and 2017, pension expense for the School was \$26,917 and \$28,137, respectively, which is included in payroll taxes and employee benefits in the accompanying statement of functional expenses.

#### 7. CONCENTRATIONS

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- 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 96% of its revenue from the NYCDOE for the year ended June 30, 2018.
- C. The School's grants and other receivables consist of three major grantors at June 30, 2018.
- D. The School's payables consist of four major vendors at June 30, 2018.



**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, 2018, 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 29, 2018.

**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 29, 2018.

An Independent Member of Baker Tilly International

**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 29, 2018