

Charter School of Educational Excellence

**Financial Statements
and
Independent Auditors' Report**

June 30, 2010

Charter School of Educational Excellence

Financial Statements

Table of Contents

Independent Auditors' Report	1
Financial Statements	
Statement of Financial Position	2
Statement of Activities	3
Statement of Cashflows	4
Notes to Financial Statements	5 - 10
Supplemental Information	
Schedule of Functional Expenses	12
Report on Internal Control Over Financial Reporting and On Compliance and Other Matters Based on an Audit of Financial Statements Performed Accordance with Government Auditing Standards	13 - 14

Independent Auditors' Report

To the Board of Trustees of
Charter School of Educational Excellence
New York, New York

We have audited the accompanying statement of financial position of Charter School of Educational Excellence as of June 30, 2010, and the related statement of activities and cash flows for the year then ended. These financial statements are the responsibility of the Project's management. 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 of The United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Charter School of Educational Excellence as of June 30, 2010, and the changes in net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 27, 2010, on our consideration of Charter School of Educational Excellence's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedule of functional expenses on page 12 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



New City, New York
October 27, 2010

Charter School of Educational Excellence
Statement of Financial Position
June 30, 2010

ASSETS

Current Assets	
Cash - Operating	\$ 51,578
Due from Government Agencies (Note 4)	290,799
Prepaid Expenses	<u>66,038</u>
Total Current Assets	<u>408,415</u>
Fixed Assets	
Leasehold Improvements	3,146,287
Equipment, Furniture and Fixtures	<u>820,851</u>
	3,967,138
Less: Accumulated Depreciation	<u>(1,077,695)</u>
Total Fixed Assets	<u>2,889,443</u>
Other Assets	
Security Deposits	24,567
Deferred Financing Cost, Net (Note 5)	<u>41,442</u>
Total Other Assets	<u>66,009</u>
Total Assets	<u><u>\$ 3,363,867</u></u>

LIABILITIES AND NET ASSETS

<u>Current Liabilities</u>	
Accounts Payable and Accrued Expenses	\$ 141,441
Accrued Payroll and Related Expenses	348,229
Management Fee Payable (Note 7)	124,683
Capital Lease Obligation, Current Portion (Note 8)	4,888
Loan Payable, Current Portion (Note 9)	<u>203,307</u>
Total Current Liabilities	<u>822,548</u>
Long-Term Liabilities	
Loan Payable, Net of Current Portion (Note 9)	<u>2,782,477</u>
Total Long-Term Liabilities	<u>2,782,477</u>
Total Liabilities	<u>3,605,025</u>
<u>Net Assets</u>	
Unrestricted Net Assets (Deficit)	<u>(241,158)</u>
Total Net Assets	<u>(241,158)</u>
Total Liabilities and Net Assets	<u><u>\$ 3,363,867</u></u>

Charter School of Educational Excellence
Statement of Activities
For the year ended June 30, 2010

<u>PUBLIC SUPPORT AND REVENUE</u>	Unrestricted	Temporarily Restricted	Total
Resident Student Enrollment	\$ 4,617,750	\$ -	\$ 4,617,750
Food Service	-	221,261	221,261
Federal Funding	-	389,466	389,466
State Funding	-	10,015	10,015
Corporate Contributions	29,593	-	29,593
Interest Income	834	-	834
Total Public Support and Revenue	4,648,177	620,742	5,268,919
Net Assets Released From Restrictions	620,742	(620,742)	-
Total Support and Revenue	5,268,919	-	5,268,919
<u>EXPENSES</u>			
<u>Program Services</u>			
Regular Education	4,073,770	-	4,073,770
Special Education	318,789	-	318,789
	4,392,559	-	4,392,559
<u>Supporting Services</u>			
Management and General	765,600	-	765,600
Total Expenses	5,158,159	-	5,158,159
Change in Net Assets	110,760	-	110,760
Net Assets, Beginning of Year	(351,918)	-	(351,918)
Net Assets, End of Year	\$ (241,158)	\$ -	\$ (241,158)

Charter School of Educational Excellence
Statement of Cash Flows
For the year ended June 30, 2010

<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>	
Change in Net Assets	\$ 110,760
Adjustments to Reconcile Change in Net Assets to	
Net Cash Provided by Operating Activities:	
Depreciation and Amortization	341,364
Changes in Assets and Liabilities	
(Increase) / Decrease in:	
Due from Government Agencies	(81,699)
Accounts Receivable	9,372
Prepaid Expenses	(36,554)
Increase / (Decrease) in:	
Accounts Payable and Accrued Expenses	167,972
Accrued Payroll and Related Expenses	61,813
Total Adjustments	<u>462,268</u>
Net Cash Provided by Operating Activities	<u>573,028</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>	
Purchases of Leasehold Improvements	(77,093)
Purchases of Equipment, Furniture and Fixtures	<u>(442,301)</u>
Net Cash Used In Investing Activities	<u>(519,394)</u>
<u>CASH FLOWS FROM FINANCING ACTIVITIES:</u>	
Repayments of Capital Lease Obligation	(13,592)
Repayments of Loan Payable	<u>(112,085)</u>
Net Cash Used In Financing Activities	<u>(125,677)</u>
NET DECREASE IN CASH	(72,043)
CASH - BEGINNING OF YEAR	<u>123,621</u>
CASH - END OF YEAR	<u>\$ 51,578</u>
Supplemental Disclosures:	
Cash paid during the year for interest	<u>\$ 138,850</u>

Charter School of Educational Excellence
Notes to the Financial Statements
June 30, 2010

NOTE 1 - ORGANIZATION

Charter School of Educational Excellence (the "School") is a charter school for children located in Yonkers, New York. In the first year of operation (2005-2006), the school operated grades kindergarten through fourth. In the school year ended June, 2007 it opened a fifth grade. The school plans to add one grade per year until a grade sixth is reached. It educates children in a completely nondiscriminatory and secular basis. The founders and supporters of the School believe that access to a public education of high quality for all children is the foremost issue. The School was chartered during April 2004.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The accompanying financial statements were prepared on the accrual basis of accounting in accordance with generally accepted accounting principles.

Basis of Presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, Financial Statements of Not-for-Profit Organizations. Under SFAS 117, it is required to report information regarding financial position and activities according to the following three classes of net assets: Unrestricted net assets have no donor restrictions and have met all legal and donor requirements; Temporarily restricted net assets are temporarily restricted by donor stipulations and requirements; and Permanently restricted net assets are permanently restricted by donor stipulations and requirements.

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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Contributions

The School records contributions received as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires, that is, when a stipulation time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. All contributions received in the year ended 2010 were unrestricted.

Recognition of Revenue

Government contract revenue is recognized as earned in the period services are provided and costs are incurred.

Cash and Cash Equivalents

For the purposes of the statement of cash flows, the Organization considers all highly liquid investments available for current use with an initial period of three months or less to be cash equivalents.

Income Tax Status

The Organization is a not-for-profit corporation organized under the laws of the State of New York. It is exempt from federal income taxes under Section 501 (c)(3) of the Internal Revenue Code.

Charter School of Educational Excellence
Notes to the Financial Statements
June 30, 2010

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leasehold Improvements Furniture and Fixtures, and Equipment

Leasehold improvements, furniture and equipment are valued at cost less accumulated depreciation. Depreciation is computed on a straight line basis over the estimated useful lives of the related assets or the term of the lease agreement. Normal replacement and maintenance costs are charged to earnings as incurred, and major renewals and improvements are capitalized. Upon disposition, the cost and related accumulated depreciation is removed from the accounts and the resulting gain or loss for the period. The School capitalizes assets with cost of \$500 and over. Depreciation is calculated based on the useful lives of the assets as follows:

Leasehold Improvements	20 Years
Equipment and Furniture	3 - 10 Years

Functional Allocation of Expenses

Expenses relating to more than one function are allocated to program service and management and general based on employee time estimates or other appropriate usage factors.

NOTE 3 – INVESTMENTS

Pursuant to the provisions described in Statement of Financial Accounting Standards ("SFAS") No. 157, *Fair Value Measurements*, the School categorizes its financial instruments into a three-level fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three board levels. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). Valuation of assets and liabilities traded in less active dealer or broker markets that have significant observable inputs are classified as Level 2. Level 2 valuations are usually obtained from third-party pricing service valuations for identical or similar assets. If the inputs used to measure fair value fall within different levels of the hierarchy, the category level is based on the lowest priority level input that is significant to the fair value measurement of the instrument.

The School's investments at June 30, 2010 consists of money market account totaling \$7,130, which is classified as Level 2 in the fair value hierarchy.

NOTE 4 – PUPIL ENROLLMENT AND OTHER REVENUES FROM GOVERNMENT

Under the School's Charter School Agreement and the Charter School Act, the School is entitled to receive funding from both State and Federal sources that are available to public schools. These funds include State pupil enrollment funds and Federal food subsidies and Title I, IIA, IID, IV and V funds. The calculation of the amounts to be paid to the School under these programs is determined by the State, and is based on complex laws and regulations, enrollment levels, and economic information related to the home school district of the children enrolled in the school. If these regulations, some of which are relatively new in the State of New York, were to change, or other factors included in the calculations were to change, the level of funding that the School receives could vary significantly.

Charter School of Educational Excellence
Notes to the Financial Statements
June 30, 2010

NOTE 4 – PUPIL ENROLLMENT AND OTHER REVENUES FROM GOVERNMENT (continued)

Amount due from government agencies and included as revenues in the statement of activities, consist of the following as of June 30, 2009:

Resident Student Enrollment	\$	24,459
Federal Funding		259,236
State Funding		7,104
	\$	290,799

NOTE 5 – DEFERRED FINANCING COST

Costs relating to obtaining the loan are capitalized and amortized over the term of the related debt using a straight-line method. Total loan cost were \$57,383 and accumulated amortization at June 30, 2010 was \$15,941. Amortization of deferred financing costs charged to operations was \$3,826 for 2010. When a loan is paid in full, any unamortized financing costs are removed from the related accounts and charged to operations.

NOTE 6 – DEFINED CONTRIBUTION PLAN

The School offers a 401(k) plan (the “Plan”) for substantially all of its employees. Employees are eligible for the plan immediately upon employment and participation in the Plan is voluntary. Employees may contribute up to 15% of their annual compensation to the Plan, limited to a maximum annual amount as set periodically by the Internal Revenue Service. The School matches the employee contribution 100% up to 4% of the employee’s annual compensation. The School’s contribution recognized in the statement of activities was \$21,118 for 2010. The Plan assets are held in a separate trust and are not included in the accompanying financial statements. All plan assets are held for the exclusive benefit of the Plan’s participants and beneficiaries.

NOTE 7 – DUE TO VICTORY SCHOOLS, INC.

Management Fee Payable

Victory Schools, Inc. (VSI) manages the operations of the School under a management agreement entered into by the School and Victory. The agreement was executed on March 30, 2004. Per the term of the agreement, Victory assumes responsibility for task and functions associated with the educational services to be provided to the children enrolled as student at the School in accordance with the term of the Charter and the Charter of Schools Act, subject to the appropriate oversight from the school’s Board of trustees.

In providing the above services as per the original agreement, Victory was to be paid a management fee in the amount equal to product of the total full-time equivalent enrollment of students in the Charter School as defined under Section 119.1 of New York State Commissioner of Education Regulations multiplied. The Per Pupil Fee shall be increased or decreased each year by the percentage increase or decrease in the Final Adjusted Expense Per Pupil for charter schools in the Yonkers City school district as calculated by the New York State Education Department annually.

Pursuant to the terms of a verbally agreed-upon amendment to this agreement, Victory has proposed to reduce the Per Pupil Fee retroactively to 2006.

Charter School of Educational Excellence
Notes to the Financial Statements
June 30, 2010

NOTE 7 – DUE TO VICTORY SCHOOLS, INC. (continued)

Victory is entitled to receive the management fees on a bi-monthly basis. Any VSI Fee, or portion thereof, not paid within (30) days of its due date shall bear interest at an annualized rate of 7.5% per annum on the outstanding past due amount, provided such past due payments are not as a result of the Yonkers School District’s failure to timely remit the Adjusted Expense Per Pupil to the Charter School. As of June 30, 2010, Victory Schools, Inc. is due \$124,683 in management fees.

Loan Payable

Victory has provided a secured credit agreement to the School, dated January 1, 2004, which allows the school to access up to \$300,000. The unpaid amount shall bear interest at an annual rate of 9.85%. For the period February 2004 through June 2006, Victory voluntarily waived the interest charge. Due to the cash flow shortages of the school, Victory has allowed the school to exceed the amount of the agreement at various times throughout the year. During the fiscal year 2007, the annual interest rate was reduced to 7.5%.

On July 1, 2007, the management fee payable, the loan payable and accrued interest were converted over to a

NOTE 8 – CAPITAL LEASE

The School has entered into several capital equipment leases expiring at various dates through 2011. The aggregate lease payments were discounted at the inception of the lease and the net present value was recorded as a liability. The fair value of the related equipment was recorded as an asset and is amortized over the life of the related leases.

Future minimum lease payments and the present value of payments under the capital lease obligations are as follows:

Year Ending <u>June 30,</u>	
2011	\$ 4,888
	<u>4,888</u>
Less Current Portion	(4,888)
Long-Term Portion	<u><u>\$ -</u></u>

NOTE 9 – LOAN PAYABLE

In July 2005, the School entered into a \$1,500,000 loan payable for the renovation, rehabilitation and construction of leasehold improvements to the facilities where the school is located. The loan term is for fifteen years and bears interest at 8% per annum and matures on April 1, 2021.

In October 2006 another similar loan with the same institution was obtained. The loan was for \$480,000 and had a term of 36 months, with interest payable monthly at 8.25%. A balloon payment of \$421,919 is required at term end of December, 2009.

In July 2007, the School converted the management fee payable, loan payable and the accrued interest to a term loan (See Note 7 for details). The loan was for \$1,493,186 and had a term of 120 months, with interest payable monthly at 7.5% per annum and matures on June 2017.

Charter School of Educational Excellence
Notes to the Financial Statements
June 30, 2010

NOTE 9 – LOAN PAYABLE (continued)

The leasehold improvements and equipment, which have a depreciated value of \$2,707,587, serve as collateral for the loan. Future scheduled payments of principal under the terms of these agreements are as follows for the years ending June 30:

<u>June 30,</u>	<u>Amount</u>
2011	\$ 203,307
2012	220,073
2013	238,223
2014	265,456
2015	278,920
Thereafter	<u>1,779,805</u>
	2,985,784
Less Current Portion	<u>(203,307)</u>
Long-Term Portion	<u><u>\$ 2,782,477</u></u>

NOTE 10 – COMMITMENTS AND CONTINGENCIES

Occupancy Lease

The School has entered into a non-cancelable operating lease for its classroom facilities. Future minimum lease payments as of June 30 are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2011	\$ 21,704
2012	22,355
2013	23,026
2014	23,716
2015	24,428
Thereafter	<u>105,264</u>
	<u><u>\$ 220,493</u></u>

Audits by Funding Sources

The School participates in a number of Federal and State programs. These programs require that the School complies with certain requirement of laws, regulations, contracts, and agreements applicable to the program in which it participates. All funds expended in connection with government grants and contracts are subject to audit by government agencies. While the ultimate liability, if any, from such audits of government and contracts by government agencies is presently not determinable, it should not, in the opinion of the management, have a material effect on the financial position or result of operations. Accordingly, no provision for any such liability that may result has been made in the accompanying financial statements.

Charter School of Educational Excellence
Notes to the Financial Statements
June 30, 2010

NOTE 11 – CONCENTRATION OF RISK

The School is dependent on various government agencies for funding, and is responsible for meeting the requirements of such agencies. If the school was to lose students or the related government funding, it could have a substantial effect on its ability to continue operations.

NOTE 12 – SUBSEQUENT EVENTS

In accordance with Statement of Financial Accounting Standards No. 165, *Subsequent Events*, the School has evaluated subsequent events between the statement of financial position date of June 30, 2010 and October 27, 2010, the date the financial statements were issued.

As of the date of the auditor's report, the Organization was in the final stage of securing financing by means of a bond issuance. The proceeds of the bond issuance will be used to finance the construction of improvements, construction of additional space and to refinance existing long-term debt (See Note 9)

Charter School of Educational Excellence
Schedule of Functional Expenses
For the year ended June 30, 2010

	Regular Education	Special Education	Total Programs	Support Services	Total
<u>Personnel Expenses</u>					
Salaries	\$ 1,922,783	\$ 149,904	\$ 2,072,687	\$ -	\$ 2,072,687
Fringe Benefits	310,495	24,207	334,702	-	334,702
Payroll Taxes and Related Expenses	184,231	14,363	198,594	-	198,594
Total Personnel and Related Expenses	<u>2,417,509</u>	<u>188,474</u>	<u>2,605,983</u>	<u>-</u>	<u>2,605,983</u>
<u>Operating Expenses</u>					
Contracted Services - Management Co.	-	-	-	753,600	753,600
Consultants - Education	16,246	9,150	25,396	-	25,396
Food	176,702	7,082	183,784	-	183,784
Insurance	67,578	5,269	72,847	-	72,847
Supplies and Materials	39,740	3,098	42,838	-	42,838
Textbooks	44,524	3,471	47,995	-	47,995
Telephone	34,125	2,660	36,785	-	36,785
Occupancy	260,617	20,318	280,935	-	280,935
Utilities	55,522	4,329	59,851	-	59,851
Printing	4,855	379	5,234	-	5,234
Professional Development	39,362	3,069	42,431	-	42,431
Advertising	3,748	292	4,040	-	4,040
Auditing Fees	-	-	-	12,000	12,000
Maintenance and Repairs	154,681	12,059	166,740	-	166,740
Transportation	273,329	21,309	294,638	-	294,638
Amortization	3,549	277	3,826	-	3,826
Depreciation	313,126	24,412	337,538	-	337,538
Interest Expense	128,808	10,042	138,850	-	138,850
Other Expenses	39,749	3,099	42,848	-	42,848
Total Operating Expenses	<u>1,656,261</u>	<u>130,315</u>	<u>1,786,576</u>	<u>765,600</u>	<u>2,552,176</u>
TOTAL EXPENSES	<u><u>\$ 4,073,770</u></u>	<u><u>\$ 318,789</u></u>	<u><u>\$ 4,392,559</u></u>	<u><u>\$ 765,600</u></u>	<u><u>\$ 5,158,159</u></u>