

HEALTH SCIENCES CHARTER SCHOOL

FINANCIAL STATEMENTS

June 30, 2011

(With Independent Auditors Report Thereon)



Independent Auditor's Report

To The Board of Trustees
Health Sciences Charter School
Buffalo, New York

We have audited the accompanying statement of financial position of Health Sciences Charter School (a nonprofit organization) as of June 30, 2011, and the related statements of activities, functional expenses, and cash flows for the period from September 15, 2009 (inception) to June 30, 2011. These financial statements are the responsibility of Health Sciences Charter School'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 in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. 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 provide 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 Health Sciences Charter School as of June 30, 2011, and the changes in its net assets and its cash flows for the period from September 15, 2009 (inception) through June 30, 2011 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 3, 2011, on our consideration of Health Sciences Charter School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Kirisits & Associates CPAS, PLLC

Buffalo, New York
October 3, 2011

HEALTH SCIENCES CHARTER SCHOOL

STATEMENT OF FINANCIAL POSITION

June 30, 2011

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$	30,406
Receivables		9,469
Prepaid expenses		6,329
TOTAL CURRENT ASSETS		<u>46,204</u>

Property and equipment, net of accumulated depreciation and amortization		<u>1,197,350</u>
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TOTAL ASSETS	\$	<u>1,243,554</u>
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LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable	\$	210,021
Line of credit		152,000
Accrued expenses		88,306
Accrued interest		9,067
Current portion of long-term debt		22,693
TOTAL CURRENT LIABILITIES		<u>482,087</u>

Long-term debt		<u>827,307</u>
TOTAL LIABILITIES		<u>1,309,394</u>

NET ASSETS (DEFICIT)

Unrestricted		(65,840)
TOTAL NET ASSETS (DEFICIT)		<u>(65,840)</u>

TOTAL LIABILITIES AND NET ASSETS (DEFICIT)	\$	<u>1,243,554</u>
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See accompanying notes to financial statements.

HEALTH SCIENCES CHARTER SCHOOL
STATEMENT OF ACTIVITIES
FOR THE PERIOD FROM SEPTEMBER 15, 2009 (INCEPTION) TO JUNE 30, 2011

CHANGES IN UNRESTRICTED NET ASSETS
REVENUE

Public School District:	
Revenue - resident student enrollment	\$ 1,040,578
Revenue - students with disabilities	55,513
Federal and State grants	873,039
Contributions	12,391
In-kind contributions	66,274
Other income	9,300

TOTAL UNRESTRICTED REVENUES AND OTHER SUPPORT	<u>2,057,095</u>
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EXPENSES

Regular education	1,030,273
Special education	63,776
Other program	101,763
Management and general	927,123

TOTAL EXPENSES	<u>2,122,935</u>
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DECREASE IN UNRESTRICTED NET ASSETS	(65,840)
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NET ASSETS - BEGINNING OF PERIOD	<u>-</u>
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NET ASSETS (DEFICIT) - END OF PERIOD	<u><u>\$ (65,840)</u></u>
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See accompanying notes to financial statements.

HEALTH SCIENCES CHARTER SCHOOL
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE PERIOD FROM SEPTEMBER 15, 2009 (INCEPTION) TO JUNE 30, 2011

	<u>Program Expenses</u>				<u>Management and General</u>	<u>Total</u>
	<u>Regular Education</u>	<u>Special Education</u>	<u>Other Program</u>	<u>Total Program Expenses</u>		
Salaries	\$ 300,662	\$ 44,323	\$ 50,249	\$ 395,234	\$ 282,811	\$ 678,045
Employee benefits and payroll taxes	63,610	9,377	10,631	83,618	59,833	143,451
Summer school	-	-	8,595	8,595	-	8,595
Textbooks and materials	69,338	-	-	69,338	-	69,338
Athletic expenses	-	-	2,107	2,107	-	2,107
Fieldtrips	5,291	-	-	5,291	-	5,291
Student testing and assessments	3,823	-	-	3,823	-	3,823
Uniforms	10,326	-	-	10,326	-	10,326
Instructional consultants	50,261	-	-	50,261	-	50,261
Transportation	3,886	-	-	3,886	-	3,886
Food service	1,684	-	-	1,684	-	1,684
Staff development	1,290	-	-	1,290	-	1,290
Student activities	-	-	18,507	18,507	-	18,507
Rent	63,518	4,537	4,537	72,592	18,148	90,740
Custodial expense	-	-	-	-	10,506	10,506
Facility management fees	-	-	-	-	12,160	12,160
Repairs and maintenance	-	-	-	-	13,641	13,641
Security	-	-	-	-	95,599	95,599
Data and communications	5,594	400	400	6,394	1,598	7,992
Technology	43,397	-	-	43,397	-	43,397
Office expense	-	-	-	-	21,941	21,941
Telephone and internet	45,496	3,250	3,250	51,996	12,998	64,994
Postage and printing	-	-	-	-	8,054	8,054
Travel and conferences	4,475	660	748	5,883	4,209	10,092
Copier lease	1,266	187	212	1,665	1,190	2,855
Professional fees	33,137	-	-	33,137	87,917	121,054
Marketing and recruitment	9,206	-	-	9,206	9,205	18,411
Payroll processing fees	-	-	-	-	13,517	13,517
Contracted services	115,185	-	-	115,185	248,173	363,358
Insurance	8,547	611	611	9,769	2,441	12,210
Interest expense	-	-	-	-	14,717	14,717
Miscellaneous	2,926	431	489	3,846	2,751	6,597
Depreciation and amortization	187,355	-	1,427	188,782	5,714	194,496
Total functional expenses	\$ 1,030,273	\$ 63,776	\$ 101,763	\$ 1,195,812	\$ 927,123	\$ 2,122,935

See accompanying notes to financial statements.

HEALTH SCIENCES CHARTER SCHOOL
STATEMENT OF CASH FLOWS
FOR THE PERIOD FROM SEPTEMBER 15, 2009 (INCEPTION) TO JUNE 30, 2011

CASH FLOWS FROM OPERATING ACTIVITIES	
Decrease in unrestricted net assets	\$ (65,840)
Adjustments to reconcile decrease in net assets to net cash provided by operating activities:	
Depreciation and amortization	194,496
Changes in:	
Receivables	(9,469)
Prepaid expenses	(6,329)
Accounts payable	210,021
Accrued expenses	88,306
Accrued interest	9,067
Net cash provided by operating activities	<u>420,252</u>
 CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of equipment	(541,846)
Net cash used in investing activities	<u>(541,846)</u>
 CASH FLOWS FROM FINANCING ACTIVITIES	
Proceeds from line of credit	550,144
Payments on line of credit	(398,144)
Net cash provided by financing activities	<u>152,000</u>
INCREASE IN CASH AND CASH EQUIVALENTS	30,406
CASH AND CASH EQUIVALENTS - BEGINNING OF PERIOD	<u>-</u>
CASH AND CASH EQUIVALENTS - END OF PERIOD	<u>\$ 30,406</u>
 Supplemental operating and financing information:	
Interest paid	<u>\$ 5,650</u>
 Supplemental non-cash investing and financing information:	
Purchase of building financed with long-term debt	<u>\$ 850,000</u>

See accompanying notes to financial statements.

HEALTH SCIENCES CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Organization

Health Sciences Charter School (the School) was chartered on September 15, 2009 by the Board of Regents of the University of the State of New York to operate a charter school in the Town of Tonawanda, New York. The School currently offers grade 9 instruction, with plans to add one grade each year until they reach grade 12. The School has been granted a provisional charter through 2014, after which time the charter may be renewed, upon application, for five more years.

The School relocated its facilities to the Buffalo Public School District in August 2011. The School began its second year of operations in its new facility for the 2011-12 school year.

Basis of Accounting

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

Basis of Presentation

The School is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. There were no temporarily or permanently restricted net assets at June 30, 2011.

Cash and Cash Equivalents

Cash in financial institutions potentially subjects the School to concentrations of credit risk, since it may exceed insured limits at various times throughout the year.

Receivables

Accounts receivable are stated at the amounts management expects to collect from outstanding balances. Balances that are outstanding after management has used reasonable collection efforts are written off through a charge to bad debt expense and a credit to accounts receivable. An allowance for doubtful accounts is considered unnecessary by management because all significant amounts deemed uncollectible are written off each year.

Deferred Revenue

The School records grant awards accounted for as exchange transactions as deferred revenue until related services are performed.

HEALTH SCIENCES CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and Equipment

Property and equipment is stated at cost net of accumulated depreciation. Depreciation is provided over estimated asset service lives. Maintenance and repairs are charged to operations as incurred; significant improvements are capitalized.

Enrollment fees

The School is reimbursed by each student's resident school district annually, based on the product of the State approved operating expense of that district and the full time equivalent enrollment of the students in the School residing in the district. The School's enrollment fees are received primarily from the City of Buffalo Board of Education and Kenmore-Tonawanda Union Free School District.

Grants

The School is the recipient of awards and reimbursements from federal, state and local sources. The awards and reimbursements are subject to compliance and financial audits by the funding source. Management believes no significant adjustments to recognized amounts are necessary.

The School records grant awards accounted for as exchange transactions as deferred revenue until related services are performed. Special project grants are generally recorded as revenue when the grant is awarded.

In-Kind Contributions

The School records donated services and materials at their estimated fair value on the date of their contribution. Donated services are recognized as contributions if the services require specialized skills, are performed by people with those skills, and would otherwise be purchased by the School had they not been donated. During the period September 15, 2009 (inception) to June 30, 2011, donated services and materials amounted to \$66,274.

Contributions

Contributions received are measured at their fair values, and are reported as an increase in net assets. The School reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets, or designated as support for future periods. Temporarily restricted net assets are those whose use by the School has been limited by donors to a specific purpose or time period. When a donor restriction expires, that is, when a stipulated 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.

HEALTH SCIENCES CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income Taxes

The School is a 501(c)(3) organization exempt from income taxes under Section 501(a) of the Internal Revenue Code. Management has adopted the accounting standard formerly known as Financial Accounting Standards Board (FASB) Interpretation No. 48 (commonly referred to as "FIN 48") and believes there are no uncertainties in income taxes or tax positions that require disclosure in the financial statements.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Cost Allocation

The School's costs of providing its various programs and activities have been summarized on a functional basis in the Statement of Activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

NOTE 2 – RECEIVABLES

Receivables at June 30, 2011 represent resident student enrollment revenue earned but not yet received in the amount of \$9,469.

NOTE 3 – PROPERTY AND EQUIPMENT

Building and improvements	\$ 1,124,485
Equipment	267,361
Less: Accumulated depreciation	<u>(194,496)</u>
	\$ <u>1,197,350</u>

Depreciation and amortization expense for the period ended June 30, 2011 amounted to \$194,496. Total amortization expense of \$159,153 includes an additional \$86,208 in leasehold improvements in which amortization was accelerated in anticipation of abandonment of a lease (see note 7).

NOTE 4 – LINE OF CREDIT

The School has available a \$500,000 working capital line of credit from a bank, due on demand with interest payable at prime plus 1% (4.25% at June 30, 2011). The line is guaranteed by a local foundation who has also agreed to pay interest in excess of 4%. The line is subject to the usual terms and conditions applied by the bank for working capital financing, and is annually reviewed and renewed. The balance under this line amounted to \$152,000 at June 30, 2011.

HEALTH SCIENCES CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 5 – LONG-TERM DEBT

In April 2011, the School entered into an agreement with 1291 Group, LLC to rehabilitate and build a high school on the property at 1140 Ellicott Street in Buffalo, New York. As part of this agreement, the School entered into a mortgage with 1291 Group, LLC in the amount of \$850,000. The mortgage matures on May 1, 2016 with interest at a variable rate equal to the greater of (i) six percent (6%) per annum or (ii), the prime rate plus 2.75%. The mortgage is prepayable, in whole or in part, at any time without penalty. The interest rate is adjusted annually on April 1st of each year. Interest only payments on the note are payable until July 1, 2011, and, commencing on August 1, 2011 monthly installment payments of principal and interest are due pursuant to a 20-year amortization schedule. The five-year debt maturities are as follows:

2012	\$ 22,693
2013	24,093
2014	25,579
2015	27,157
2016	28,831
Thereafter	<u>721,647</u>
Total	<u>\$ 850,000</u>

Additionally, as part of the agreement to rehabilitate 1140 Ellicott Street, the School entered into a lease agreement with 1291 Group, LLC to lease the property and improvements. See note 7 for the terms of the lease agreement.

NOTE 6 - TAX DEFERRED ANNUITY PLAN

The School has a tax-deferred annuity plan qualified under Section 403(b) of the Internal Revenue Code. The plan allows annual contributions equal to the employee's elective deferrals not to exceed 3.5% of the annual compensation of participating employees. There are no minimum service requirements and employees are immediately eligible to contribute to the plan on their first day of employment. Employees are immediately vested in their elective deferrals. The plan also allows for additional non-elective employer contributions equal to 2% of the annual compensation. Employees are required to work a minimum of 800 hours per year in order to be vested in the matching contribution and non-elective employer contribution based on a one to five year graded scale. The required contributions for the period ended June 30, 2011 amounted to \$25,249. At June 30, 2011, the 2% non-elective employer contribution is unpaid and included in accrued expenses in the accompanying Statement of Financial Position.

HEALTH SCIENCES CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 7 - COMMITMENTS

The School entered into a lease agreement with 1291 Group, LLC dated April 27, 2011 whereby the School leases back its interest in 1140 Ellicott Street, Buffalo, New York. As part of this agreement 1291 Group, LLC will lease the building from the School for an annual rate of \$1 per year for a 48-year term through February 29, 2060. The landlord subleases the property back to the School at a variable payment under an absolute triple net lease. As part of the absolute triple net lease, the School will be responsible for all maintenance, structure, insurance and upkeep of the building. As of June 30, 2011, construction of the project has not been completed. The School incurred costs related to construction in the amount of \$101,579 through June 30, 2011, which are included in property and equipment in the accompanying Statement of Financial Position. In late August 2011, the School took possession of the building ("delivery date") and began making the required lease payments ("rental commencement date"). The initial lease term is 25 years ending on July 31, 2036. Multiple options to renew the lease extend through February 29, 2060. The lease agreement also includes a buyout option at any time after July 31, 2016 equal to the unpaid balance of the 1291 Group, LLC mortgage ("Landlord's mortgage") plus the "HSCS Buyout" amount (as defined in the lease agreement).

The School also is obligated under an operating lease for its old facility located in the Town of Tonawanda through June 30, 2012. The School is in the process of negotiating an early termination settlement.

The minimum future rental payments under the two leases for the next five years and thereafter are summarized as follows:

2012	\$ 305,200
2013	372,000
2014	538,000
2015	651,000
2016	689,315
Thereafter	<u>13,976,105</u>
Total	<u>\$ 16,531,620</u>

NOTE 8 – SUBSEQUENT EVENTS

The School has evaluated events and transactions for potential recognition or disclosure in the financial statements through October 3, 2011 (the date on which the financial statements were available to be issued). The School began paying its lease with 1291 Group, LLC subsequent to the balance sheet date when it took possession of the building in August 2011.



KIRISITS & ASSOCIATES
CPAS, PLLC
CERTIFIED PUBLIC ACCOUNTANTS

**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 of
Health Sciences Charter School

We have audited the financial statements of Health Sciences Charter School (a nonprofit organization) as of and for the period from September 15, 2009 through June 30, 2011, and have issued our report thereon dated October 3, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Health Sciences Charter School's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Health Sciences Charter School's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified a deficiency in internal control over financial reporting that we consider to be a material weakness and other deficiencies that we consider to be a significant deficiency.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency **2011-1** described in the accompanying schedule of findings and questioned costs to be a material weakness.

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. We consider the deficiency **2011-2** described in the accompany schedule of findings and questioned costs to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Health Sciences Charter School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items **2011-1** and **2011-3**.

We noted certain matters that we reported to management of Health Sciences Charter School in a separate letter dated October 3, 2011.

Health Sciences Charter School's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit Health Sciences Charter School's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, regulatory bodies, others within the entity, the Board of Trustees, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Kniato & Associates CPAs, PLLC

Buffalo, New York
October 3, 2011

**HEALTH SCIENCES CHARTER SCHOOL
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2011**

Finding 2011-1

Condition: The report that supported the final expenditure report for the CSP Planning and Implementation grant for fiscal period August 1, 2009 to July 31, 2010 did not agree to the general ledger. There were also instances in which other grant expenditures appeared to have exceeded the amounts allowable under grant budgets in which no budget modification was prepared. Additionally, grant income was periodically recognized when received rather than as earned as required under generally accepted accounting principles. At June 30, 2011, a closing journal entry was done to reverse the balance in deferred revenue for grant income received but not yet earned, however there was no supporting documentation to support this entry. At June 30, 2011, there were no grant receivables nor deferred revenue recorded related to grant income.

Criteria: Grant expenditures reported on final grant expenditure reports should be supported by the underlying general ledger.

Cause: The School did not have adequate resources in the finance office who were well versed in proper grant reporting. Lack of necessary funding has attributed to lack of resources in the accounting department.

Effect: There appear to be grant expenditures in excess of allowable budgeted expenditures for certain budget categories. The underlying records do not adequately support the final expenditure report filed.

Recommendation: We recommend that grant budgets be monitored to ensure that grant expenditures are in compliance with allowable budget categories. In the event anticipated grant expenditures are expected to exceed 10% of the grant budget category, we recommend a budget modification be prepared to ensure that all allowable expenditures are charged to the grant. The School should consider devoting more resources in the finance department to ensure grants are properly reported. We also recommend that grant income be recognized when earned in accordance with generally accepted accounting principles.

Questioned costs: Possible grant expenditures in excess of budget amounted to \$10,385.

Management's Response: Management agrees that grant income should be recognized in accordance with generally accepted accounting principles and will insure the Board that management complies with the compliance and reporting requirements of all grants. Furthermore, management has begun the review of all the grant activity from the School's inception thru the period ended June 30, 2011. Management understands the need to accurately report grant activity to various regulatory agencies by November 15, 2011 and have allocated resources/personnel to complete this process.

Given the amount of grants and the volume of transactions affecting the various grants, especially near the grants conclusion, management recommends any additional resources allocated to the finance department include individuals with grant expertise. This would assist management in the proper recognition of grant activity in the proper period and ensure the general ledger would agree to any reports submitted to regulatory agencies.

HEALTH SCIENCES CHARTER SCHOOL
SCHEDULE OF FINDINGS AND QUESTIONED COSTS, Continued
JUNE 30, 2011

Finding 2011-2

Condition: In order to prepare the financial statements in accordance with generally accepted accounting principles, multiple audit adjustments were necessary. Some of the adjustments were material to the financial statements taken as a whole, however the *net* profit and loss effect of such adjustments was not material to the financial statements.

Criteria: Transactions should be recorded in accordance with generally accepted accounting principles.

Cause: Certain transactions were expensed as incurred rather than being capitalized. Other adjustments were necessary in order to adjust balances to the accrual basis of accounting.

Effect: Internally generated financial statements may not have been accurate during the year as certain transactions were not in accordance with generally accepted accounting principles.

Recommendation: In order to assist the Board in making informed decisions, we recommend that a review of internally generated financial statements be performed at least quarterly to ensure that the books and records are in accordance with generally accepted accounting principles.

Questioned Costs: None

Management's Response: Management agrees with the recommendation and believes that the adjustments proposed by the auditors were proper and, while not recognized in the internal financial statements during the year, management was aware of these differences and had consistent dialog with the Board and Finance committee regarding the majority of the adjustments subsequently recorded.

HEALTH SCIENCES CHARTER SCHOOL
SCHEDULE OF FINDINGS AND QUESTIONED COSTS, Continued
JUNE 30, 2011

Finding 2011-3

Condition: The School has not established an escrow account for dissolution as required in accordance with its Charter.

Criteria: The Charter requires an escrow account be established in the event of dissolution to cover legal and accounting costs in the amount of \$75,000 (\$25,000 per year for the first three years).

Cause: The School has not established an escrow account for dissolution as required in accordance with its Charter.

Effect: The School is in violation of the Charter requirement to establish an escrow account for dissolution.

Recommendation: We recommend an escrow account be established as soon as possible.

Questioned Costs: None

Management's Response: Management agrees with the recommendation and has begun the process of establishing an escrow account.