

NIAGARA CHARTER SCHOOL

Financial Statements and  
Supplementary Information

June 30, 2011

(With Independent Auditors' Report Thereon)

NIAGARA CHARTER SCHOOL

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INDEPENDENT AUDITORS' REPORT

The Board of Trustees  
Niagara Charter School:

We have audited the accompanying statement of financial position of Niagara Charter School as of June 30, 2011, and the related statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of the School's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the School's 2010 financial statements and in our report dated September 21, 2010, we expressed an unqualified opinion on those financial statements.

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 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 Niagara Charter School as of June 30, 2011, and the changes in its net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated October 5, 2011 on our consideration of Niagara 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 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.

*Toski, Schaefer & Co., P.C.*

Williamsville, New York  
October 5, 2011

NIAGARA CHARTER SCHOOL  
 Statement of Financial Position  
 June 30, 2011  
 with comparative totals for 2010

	<u>Assets</u>	<u>2011</u>	<u>2010</u>
Current assets:			
Cash		\$ 634,779	158,084
Receivables		239,298	15,835
Prepaid expenses		<u>22,593</u>	<u>16,895</u>
Total current assets		<u>896,670</u>	<u>190,814</u>
Property and equipment, at cost		729,560	358,533
Less accumulated depreciation		<u>(247,454)</u>	<u>(171,360)</u>
Net property and equipment		<u>482,106</u>	<u>187,173</u>
Other assets - utility deposit		<u>-</u>	<u>13,425</u>
Total assets		<u>\$ 1,378,776</u>	<u>391,412</u>
	<u>Liabilities and Net Assets</u>		
Current liabilities:			
Accounts payable		322,099	79,269
Accrued expenses:			
Payroll and payroll taxes		141,087	156,653
Pension		<u>176,137</u>	<u>133,074</u>
Total accrued expenses		<u>317,224</u>	<u>289,727</u>
Deferred revenue		<u>93,713</u>	<u>-</u>
Total current liabilities		<u>733,036</u>	<u>368,996</u>
Net assets:			
Unrestricted		645,740	12,536
Temporarily restricted		<u>-</u>	<u>9,880</u>
Total net assets		<u>645,740</u>	<u>22,416</u>
Commitments (note 5)		<u>-</u>	<u>-</u>
Total liabilities and net assets		<u>\$ 1,378,776</u>	<u>391,412</u>

See accompanying notes to financial statements.

NIAGARA CHARTER SCHOOL  
 Statement of Activities  
 Year ended June 30, 2011  
 with comparative totals for 2010

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Total</u>	
			<u>2011</u>	<u>2010</u>
Revenue:				
Public School Districts:				
Resident student enrollment	\$ 3,811,914	-	3,811,914	3,496,721
Students with disabilities	181,494	-	181,494	146,821
Other revenue from public school districts	43,215	-	43,215	40,110
Grant income	414,665	-	414,665	284,916
Contributions	2,792	95	2,887	35,202
Other	15,362	-	15,362	17,813
Net assets released from restrictions	9,975	(9,975)	-	-
Total revenue	<u>4,479,417</u>	<u>(9,880)</u>	<u>4,469,537</u>	<u>4,021,583</u>
Expenses:				
Program services:				
Regular education	2,955,297	-	2,955,297	2,954,482
Special education	156,736	-	156,736	157,944
Total program services	<u>3,112,033</u>	-	<u>3,112,033</u>	<u>3,112,426</u>
Management and general	734,180	-	734,180	736,133
Total expenses	<u>3,846,213</u>	-	<u>3,846,213</u>	<u>3,848,559</u>
Increase (decrease) in net assets	633,204	(9,880)	623,324	173,024
Net assets (deficit) at beginning of year	<u>12,536</u>	<u>9,880</u>	<u>22,416</u>	<u>(150,608)</u>
Net assets at end of year	<u>\$ 645,740</u>	<u>-</u>	<u>645,740</u>	<u>22,416</u>

See accompanying notes to financial statements.

NIAGARA CHARTER SCHOOL  
Statement of Functional Expenses  
Year ended June 30, 2011  
with comparative totals for 2010

	Program Services			Management and general	Total	
	Regular education	Special education	Total		2011	2010
Salaries	\$ 1,335,096	70,808	1,405,904	373,721	1,779,625	1,739,672
Payroll taxes	114,391	6,067	120,458	32,022	152,480	152,214
Employee benefits	349,069	18,513	367,582	97,712	465,294	407,920
Office expense	11,874	630	12,504	3,324	15,828	14,586
Printing and production	13,864	735	14,599	3,882	18,481	20,054
Telephone	5,765	306	6,071	1,614	7,685	6,694
Meetings and travel	10,075	534	10,609	2,820	13,429	8,567
Consulting fees	9,676	513	10,189	2,709	12,898	167,406
Supplies	56,398	2,991	59,389	15,785	75,174	64,945
Interest expense	7	-	7	2	9	2,187
Professional fees	16,139	856	16,995	4,518	21,513	20,889
Advertising	4,571	242	4,813	1,280	6,093	1,798
Dues and subscriptions	7,377	391	7,768	2,065	9,833	5,673
Insurance	44,336	2,351	46,687	12,411	59,098	67,838
Legal fees	25,657	1,361	27,018	7,183	34,201	59,401
Occupancy	371,971	19,728	391,699	104,123	495,822	484,801
Repairs and maintenance	74,200	3,935	78,135	20,770	98,905	86,311
Staff development	44,063	2,337	46,400	12,335	58,735	47,710
Utilities	51,811	2,748	54,559	14,503	69,062	73,579
Garbage collection	7,289	387	7,676	2,041	9,717	8,975
Health Center costs	4,511	239	4,750	-	4,750	1,563
Security	6,014	319	6,333	1,684	8,017	7,655
Student transportation	286,435	15,191	301,626	-	301,626	303,701
Depreciation	57,087	3,028	60,115	15,979	76,094	53,784
Extracurricular activities	44,416	2,356	46,772	-	46,772	38,122
Miscellaneous	3,205	170	3,375	1,697	5,072	2,514
Total expenses	<u>\$ 2,955,297</u>	<u>156,736</u>	<u>3,112,033</u>	<u>734,180</u>	<u>3,846,213</u>	<u>3,848,559</u>

See accompanying notes to financial statements.

NIAGARA CHARTER SCHOOL  
 Statement of Cash Flows  
 Year ended June 30, 2011  
 with comparative totals for 2010

	<u>2011</u>	<u>2010</u>
Cash flows from operating activities:		
Increase in net assets	\$ 623,324	173,024
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	76,094	53,784
Changes in:		
Receivables	(223,463)	7,243
Prepaid expenses and deposit	7,727	13,937
Accounts payable	242,830	(45,921)
Accrued expenses	27,497	31,995
Deferred revenue	93,713	-
Net cash provided by operating activities	847,722	234,062
Cash flows from investing activities - additions to property and equipment	(371,027)	(99,485)
Cash flows from financing activities - repayment of long-term debt	-	(38,733)
Net increase in cash	476,695	95,844
Cash at beginning of year	158,084	62,240
Cash at end of year	\$ 634,779	158,084
Supplemental schedule of cash flow information - cash paid during the year for interest	\$ 9	2,465

See accompanying notes to financial statements.

NIAGARA CHARTER SCHOOL

Notes to Financial Statements

June 30, 2011

(1) Summary of Significant Accounting Policies

(a) Nature of Activities

Niagara Charter School (the School) was chartered by the Board of Regents of the University at the State of New York on July 21, 2005 for a term of five years pursuant to Article 56 of the New York State Education Law. The School has received a renewal of their charter which will expire on June 30, 2013. The School is a K-6 public school primarily funded through the Board of Education of the City School District at the City of Niagara Falls.

(b) Basis of Accounting

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

(c) Basis of Presentation

The School reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets. The School does not have any permanently restricted net assets. Accordingly, net assets of the School and changes therein are classified and reported as follows:

Unrestricted net assets - Net assets that are not subject to donor-imposed stipulations and may be used for any purpose designated by the School's Board of Trustees.

Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that may or will be met either by actions of the School and/or the passage of time.

(d) Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

(e) Cash

For purposes of the statement of cash flows, the School considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

(f) Capitalization and Depreciation

Property and equipment are recorded at cost or fair market value at the date of the gift in the case of donated equipment. If donors stipulate how long the assets must be used, the contributions are recorded as restricted support. In the absence of such stipulations, contributions of equipment are recorded as unrestricted support.

NIAGARA CHARTER SCHOOL  
Notes to Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

(f) Capitalization and Depreciation, Continued

Depreciation is provided for in amounts sufficient to relate the cost of depreciable assets to operations over their estimated service lives using the straight-line method. Improvements are capitalized, while expenditures for maintenance and repairs are charged to expense as incurred. Upon disposal of depreciable property, the appropriate property accounts are reduced by the related costs and accumulated depreciation. The resulting gains and losses are reflected in the statement of activities.

(g) Deferred Revenue and Revenue Recognition

Grant awards accounted for as exchange transactions are recorded as revenue when expenditures have been incurred in compliance with the grant restrictions. Amounts unspent are recorded in the statement of financial position as deferred revenue.

(h) Donated Equipment, Materials, Supplies and Personal Services

Donated equipment, materials and supplies are reflected in the financial statements based on the fair market value at the time of donation.

Donated personal services meeting the requirements for recognition in the financial statements was not material and has not been recorded. However, many individuals volunteer their time and perform a variety of tasks that assist the School.

(i) Promises to Give

Contributions are recognized when the donor makes an unconditional promise to give to the School. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

(j) Expense Allocation

The costs of providing various programs and other activities have been summarized on a functional basis in the statement of activities and in the statement of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

(k) Subsequent Events

The School has evaluated events after June 30, 2011, and through October 5, 2011, which is the date the financial statements were available to be issued, and determined that any events or transactions occurring during this period that would require recognition or disclosure are properly addressed in these financial statements.

NIAGARA CHARTER SCHOOL  
Notes to Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

(1) Income Taxes

The School is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code (the Code), therefore, no provision for income taxes is reflected in the financial statements. The School has been classified as a publicly supported organization that is not a private foundation under Section 509(a) of the Code. The School presently discloses or recognizes income tax positions based on management's estimate of whether it is reasonably possible or probable that a liability has been incurred for unrecognized income taxes. Management has concluded that the School has taken no uncertain tax positions that require adjustment in its financial statements. U.S. Forms 990 filed by the School are subject to examination by taxing authorities. The School is no longer subject to tax examination for the year ended June 30, 2007, and prior.

(2) Property and Equipment

Property and equipment are recorded at cost. A summary of property and equipment at June 30, 2011 and 2010 is as follows:

	<u>2011</u>	<u>2010</u>
Leasehold improvements	\$ 67,572	19,297
Furniture and equipment	432,777	328,685
Books	19,863	10,551
Construction in progress	<u>209,348</u>	<u>-</u>
	729,560	358,533
Less accumulated depreciation	<u>(247,454)</u>	<u>(171,360)</u>
Net property and equipment	<u>\$ 482,106</u>	<u>187,173</u>

(3) Line of Credit

The School has an annually renewable \$200,000 bank line-of-credit. Amounts borrowed on this line-of-credit bear interest at the prime rate plus 1.5% (4.75% at June 30, 2011). At June 30, 2011 and 2010, there were no amounts outstanding under the terms of this line-of-credit agreement.

(4) Temporarily Restricted Net Assets

Temporarily restricted net assets amounting to \$9,880 at June 30, 2010 were restricted for a playground that was built for the School. The School completed the project and no temporarily restricted net asset remain at June 30, 2011.

NIAGARA CHARTER SCHOOL  
Notes to Financial Statements, Continued

(5) Commitments

(a) Lease Obligation

The School leases its facility under an operating lease which expires in July 2026 subject to annual increases in the consumer price index for the Northeast Region over 2008 as the base year. The School has the option to extend the term of this lease for one five year interval. The lease will terminate on expiration or non-renewal of the School's charter. Rent expense amounted to \$495,822 and \$484,801 for the years ended June 30, 2011 and 2010, respectively.

Minimum future rental payments under the operating lease for the five years following June 30, 2011 and thereafter are as follows:

2012	\$ 490,614
2013	490,614
2014	490,614
2015	490,614
2016	490,614
Thereafter	<u>4,906,138</u>
	\$ <u>7,359,208</u>

(b) Transportation Services Obligations

The School has an agreement for bus transportation with a private carrier for its students. The agreement expires on July 1, 2013. Minimum future transportation payments due under the agreement are \$292,950 for the year ending June 30, 2012.

(6) Pension Plans

The School participates in the New York State Teachers' Retirement System (TRS), which is a cost-sharing multiple employer, public employees retirement system. TRS offers a wide range of plans and benefits which are related to years of service and final average salary, vesting of retirement benefits, death and disability. All benefits generally vest after ten years of service.

TRS is administered by the New York State Teachers' Retirement Board and provides retirement, disability, withdrawal and death benefits to plan members and beneficiaries as authorized by the Education Law and the Retirement and Social Security Law of the State of New York. TRS issues a publicly available financial report that contains financial statements and required supplementary information for the System. The report may be obtained by writing to NYSTRS, 10 Corporate Woods Drive, Albany, New York 12211-2395.

NIAGARA CHARTER SCHOOL  
Notes to Financial Statements, Continued

(6) Pension Plans, Continued

TRS requires plan member contributions of 3% of their annual salary except for those plan members who joined prior to July 1976 or have greater than 10 years of service. Pursuant to Article 11 of the Education law, employer rates are established annually for TRS by the New York State Teachers' Retirement Board at an actuarially determined rate. The employer rates for TRS were 8.62% and 6.19% of the annual covered payroll for the years ended June 30, 2011 and 2010, respectively. Required annual contributions by the School for the years ended June 30, 2011 and 2010 amounted to \$166,087 and \$126,176, respectively.

(7) Advertising Costs

Advertising costs are expensed as incurred. Advertising expense amounted to \$6,093 and \$1,798 for the years ended June 30, 2011 and 2010, respectively.

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## INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

The Board of Trustees  
Niagara Charter School:

We have audited the financial statements of Niagara Charter School (the School) as of and for the year ended June 30, 2011, and have issued our report thereon dated October 5, 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 the 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 the School's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the School's internal control over financial reporting.

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 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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.

This report is intended solely for the information and use of management, 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.

*Toski, Schaefer & Co., P.C.*

Williamsville, New York  
October 5, 2011