PINNACLE CHARTER SCHOOL

FINANCIAL STATEMENTS
WITH ADDITIONAL INFORMATION

June 30, 2011

Lumsden & McCormick, LLP
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

The Board of Trustees
Pinnacle Charter School

We have audited the accompanying balance sheets of Pinnacle Charter School (the School) as of June 30, 2011 and 2010, and the related statements of activities and cash flows for the years 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 audits.

We conducted our audits 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 audits 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 audits 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 the School as of June 30, 2011 and 2010, and the changes in its net assets and its cash flows for the years 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 14, 2011 on our consideration of the 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.

Lumsden & McCormick, LLP

October 14, 2011

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Balance Sheets

June 30,	2011	2010
Assets		
Current assets:		
Cash	$ 2,856,373	$ 2,195,109
Grants and other receivables (Note 2)	372,245	131,812
Prepaid expenses	67,519	26,922
	3,296,137	2,353,843
Deposits	61,500	61,500
Property and equipment, net (Note 3)	1,640,880	1,839,247
Deferred financing costs, net (Note 4)	24,572	30,716
	$ 5,023,089	$ 4,285,306
Liabilities and Net Assets		
Current liabilities:		
Current portion of long-term debt (Note 5)	$ 157,840	$ 453,717
Accounts payable	174,365	165,446
Accrued expenses	909,079	905,211
	1,241,284	1,524,374
Long-term debt (Note 5)	719,569	877,893
Net assets:		
Unrestricted	3,062,236	1,883,039
	$ 5,023,089	$ 4,285,306

See accompanying notes.

Statements of Activities

For the years ended June 30,	2011	2010
Changes in unrestricted net assets:		
Support and revenue:		
Public school districts:		
Revenue - resident student enrollment	$ 6,343,675	$ 5,421,799
Revenue - students with disabilities	517,269	458,303
Federal grants	358,730	406,699
Private grants	-	1,300
Other income	25,840	90,704
Total unrestricted support and revenue	7,245,514	6,378,805
Expenses:		
Program expenses:		
Regular education	4,189,234	3,871,670
Special education	388,160	383,834
Other programs	575,591	562,727
	5,152,985	4,818,231
Supporting services:		
Management and general	913,332	862,762
Total expenses	6,066,317	5,680,993
Change in unrestricted net assets	1,179,197	697,812
Net assets - beginning	1,883,039	1,185,227
Net assets - ending	$ 3,062,236	$ 1,883,039

See accompanying notes.

Statements of Cash Flows

For the years ended June 30,	**2011**	2010
Operating activities:		
Change in net assets	**$ 1,179,197**	$ 697,812
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Amortization	**6,144**	6,144
Depreciation	**242,429**	264,906
Changes in other operating assets and liabilities:		
Grants and other receivables	**(240,433)**	(13,040)
Prepaid expenses	**(40,597)**	31,081
Accounts payable	**8,919**	36,847
Accrued expenses	**3,868**	75,159
Net operating activities	**1,159,527**	1,098,909
Investing activities:		
Property and equipment expenditures	**(44,062)**	(111,929)
Financing activities:		
Principal repayments on long-term debt	**(454,201)**	(160,885)
Net change in cash	**661,264**	826,095
Cash - beginning	**2,195,109**	1,369,014
Cash - ending	**$ 2,856,373**	$ 2,195,109

See accompanying notes.

Notes to Financial Statements

1. Summary of Significant Accounting Policies:

Organization and Purpose:

Pinnacle Charter School (the School) operates a charter school in the City of Buffalo, New York, approved by the Board of Regents of the State University of New York. The School currently offers classes from kindergarten through grade 8. The School has been re-chartered through 2013, after which time the charter may be renewed, upon application, for five more years.

Subsequent Events:

The School has evaluated events and transactions for potential recognition or disclosure in the financial statements through October 14, 2011 (the date the financial statements were available to be issued).

Cash:

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.

Accounts Receivable:

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 debts 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.

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.

Leased equipment is depreciated over the lesser of the length of the related leases or the estimated useful lives of the assets.

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 the 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.

Fees and Grants:

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

Support:

Contributions received are measured at fair value, and 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 if they are designated as support for future periods. 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. Contributions received with donor-imposed restrictions that are met in the same reporting period are shown as unrestricted revenue.

Income Taxes:

The School is a 501(c)(3) organization exempt from taxation under Section 501(a) of the Internal Revenue Code.

Management believes that the School is no longer subject to examination by federal and state taxing authorities for years prior to 2008.

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 statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

2. Grants and Other Receivables:

	2011	2010
Grants	$ 267,474	$ 106,334
Resident student enrollment	101,862	25,392
Other	2,909	86
	$ 372,245	$ 131,812

3. Property and Equipment:

	2011	2010
Building improvements	$ 2,458,775	$ 2,455,909
Instructional equipment	624,889	583,693
Furniture and equipment	120,671	120,671
Land improvements	2,170	2,170
	3,206,505	3,162,443
Less accumulated depreciation	1,565,625	1,323,196
	$ 1,640,880	$ 1,839,247

4. Deferred Financing Costs:

Deferred financing costs are amortized on a straight-line basis over the 10 year term of the related loan.

5. Long-Term Debt:

	2011	2010
Bank note payable, monthly installments of $18,002 including interest at 7.75%, secured by substantially all School assets, final payment due May 2016.	$ 867,090	$ 1,010,045
Bank note payable, monthly installments of $4,127 including interest at 7.25%, repaid in October 2010.	-	307,717
Other	10,319	13,848
	877,409	1,331,610
Less current portion	157,840	453,717
	$ 719,569	$ 877,893

Aggregate maturities on long-term debt subsequent to June 30, 2011 are:

2012	$ 157,840
2013	171,000
2014	182,200
2015	194,500
2016	171,869
	$ 877,409

The bank loan agreements contain restrictive covenants relating to, among other things, the maintenance of debt service coverage.

6. Retirement Plan:

The School participates in the New York State Teachers' Retirement System (TRS) which is a cost-sharing multiple employer, public employee 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.

TRS is administered by the New York State Teachers' Retirement Board and provides 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 the New York State Teachers' Retirement System, 10 Corporate Woods Drive, Albany, NY 12211-2395.

TRS requires employee contributions of 3% of salary for the first 10 years of service for those employees who joined between July 1976 and December 2009. Participants hired on or after January 1, 2010 are required to contribute 3.5% of compensation throughout their active membership in TRS. No employee contribution is required for those hired prior to July 1976. Pursuant to Article 11 of the Education Law, an actuarially determined contribution rate is established annually by the New York State Teachers' Retirement Board. The rate is 8.62% of the annual covered payroll for the year ended June 30, 2011, and 6.19% for the year ended June 30, 2010.

The required contributions for the years ended June 30, 2011 and 2010 were $271,700 and $187,000.

7. Operating Lease:

The School entered into an agreement to lease property under the terms of a non-cancelable operating lease. Rental expense under this lease was $410,000 for the years ended June 30, 2011 and 2010.

Future minimum rentals to be paid for this lease are:

2012	$ 410,000
2013	410,000
2014	425,000
2015	430,000
2016	430,000
Thereafter	971,250
	$ 3,076,250

The lease contains various terms, including three successive five year periods from lease inception which automatically renew unless the School's charter is not renewed for the successive period. The lease also requires the School to pay its pro-rata share of the real estate taxes and utilities annually.

8. Cash Flows Information:

Net cash flows from operating activities reflect cash payments for interest of $82,310 and $109,913 for the years ended June 30, 2011 and 2010. Amounts paid for interest approximate expense recognized in the accompanying financial statements.

Lumsden &
McCormick, LLP
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT ON ADDITIONAL INFORMATION

The Board of Trustees
Pinnacle Charter School

Our report on our audits of the basic financial statements of Pinnacle Charter School for 2011 and 2010 appears on page 1. Those audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The additional information on page 9 is presented for purposes of additional analysis, and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audits of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Lumsden & McCormick, LLP

October 14, 2011

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Additional Information
Schedule of Expenses

For the year ended June, 30, 2011 (with comparative totals for 2010)

	Program Services			Supporting Services		
	Regular Education	Special Education	Other Programs	Management and General	2011 Total	2010 Total
Salaries	$ 2,465,911	$ 237,580	$ 378,762	$ 380,944	$ 3,463,197	$ 3,222,153
Employee benefits and taxes	665,456	64,114	102,213	102,803	934,586	788,942
Advertising	-	-	-	24,455	24,455	26,934
Contracted services	21,085	29,201	-	31,145	81,431	89,098
Food service	-	-	-	-	-	282
Dues and subscriptions	6,627	638	1,018	1,024	9,307	8,752
Fieldtrips	7,283	-	-	-	7,283	15,358
Fundraising	-	-	-	4,877	4,877	-
Insurance	-	-	-	61,316	61,316	55,440
Interest	-	-	-	82,310	82,310	109,913
Occupancy	304,970	29,383	46,843	47,112	428,308	426,765
Postage	-	-	-	4,900	4,900	4,656
Printing	31,920	-	-	4,505	36,425	26,083
Student services	19,669	-	-	-	19,669	-
Supplies and materials	31,547	-	-	-	31,547	47,330
Office expense	-	-	-	12,829	12,829	4,582
Other expenses	4,850	467	745	750	6,812	71,556
Professional fees	-	-	-	73,429	73,429	68,735
Repairs and maintenance	163,780	15,780	25,156	25,301	230,017	210,008
Staff development	28,693	-	-	-	28,693	10,652
Technology	19,012	-	-	-	19,012	13,176
Telephone	24,500	2,361	3,763	3,785	34,409	35,340
Textbooks	1,535	-	-	-	1,535	13,035
Transportation (student)	95,513	-	-	-	95,513	67,248
Travel	21,042	2,027	3,232	3,251	29,552	6,701
Utilities	68,592	6,609	10,536	10,595	96,332	87,204
	3,981,985	388,160	572,268	875,331	5,817,744	5,409,943
Amortization	-	-	-	6,144	6,144	6,144
Depreciation	207,249	-	3,323	31,857	242,429	264,906
Total	$ 4,189,234	$ 388,160	$ 575,591	$ 913,332	$ 6,066,317	$ 5,680,993

See auditors' report on additional information.

Lumsden & McCormick, LLP
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*

The Board of Trustees
Pinnacle Charter School

We have audited the financial statements of Pinnacle Charter School (the School) as of and for the year ended June 30, 2011, and have issued our report thereon dated October 14, 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 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.

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.

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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 the Board of Trustees, management, New York State Department of Education, federal awarding agencies and pass-through entities. It is not intended to be and should not be used by anyone other than these specified parties.

Lumsden & McCormick, LLP

October 14, 2011