



***RIVERHEAD CHARTER SCHOOL, INC.***

***FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITORS' REPORT***

***FOR THE YEARS ENDED JUNE 30, 2011 AND 2010***

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**RIVERHEAD CHARTER SCHOOL, INC.**

**FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITORS' REPORT  
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010  
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## INDEPENDENT AUDITORS' REPORT

To the Board of Trustees  
Riverhead Charter School, Inc.  
3685 Middle Country Road  
Calverton, New York 11933

We have audited the accompanying statements of financial position of the Riverhead Charter School, Inc. ("the School," a not-for-profit organization) as of June 30, 2011 and 2010, and the related statements of activities, functional expenses, 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 11, 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 and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

*Cerini & Associates LLP*

Bohemia, New York  
October 11, 2011

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**RIVERHEAD CHARTER SCHOOL, INC.**

**STATEMENTS OF FINANCIAL POSITION**  
**JUNE 30,**

	<b>2011</b>	<b>2010</b>
<b>ASSETS</b>		
<b>Current Assets:</b>		
Cash (Note 3).....	\$ 3,620,508	\$ 2,619,874
Investments (Note 2).....	58,490	57,836
Prepaid expenses.....	56,170	3,274
Accounts receivable, net (Note 6).....	108,516	199,967
Grants receivable (Note 6).....	155,092	111,078
Other current assets (Note 5).....	-	369,118
<b>TOTAL CURRENT ASSETS</b>	<b>3,998,776</b>	<b>3,361,147</b>
Property and equipment, net (Notes 4 and 5).....	3,074,374	2,963,200
Security deposit.....	1,060	31,060
Restricted cash (Note 7).....	75,000	75,000
<b>TOTAL ASSETS</b>	<b>\$ 7,149,210</b>	<b>\$ 6,430,407</b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>Current Liabilities:</b>		
Accounts payable and accrued expenses .....	\$ 793,181	\$ 687,637
Due to funding sources and school districts.....	31,895	24,401
Deferred revenue.....	5,003	-
Current portion of amounts due to Edison Schools, Inc. (Note 4).....	246,474	253,503
Current portion of notes payable (Note 4).....	105,510	98,397
<b>TOTAL CURRENT LIABILITIES</b>	<b>1,182,063</b>	<b>1,063,938</b>
Due to Edison Schools, Inc., net of current portion (Note 4).....	370,603	617,215
Notes payable, net of current portion (Note 4).....	3,385,796	3,491,305
<b>TOTAL LIABILITIES</b>	<b>4,938,462</b>	<b>5,172,458</b>
Commitments and contingencies (Notes 3, 4, 5, 6, 7, and 8)		
Net assets.....	2,210,748	1,257,949
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 7,149,210</b>	<b>\$ 6,430,407</b>

**RIVERHEAD CHARTER SCHOOL, INC.**

**STATEMENTS OF ACTIVITIES  
FOR THE YEARS ENDED JUNE 30,**

	2011	2010
<b>REVENUE AND SUPPORT:</b>		
Tuition and program service income (Notes 3 and 4).....	\$ 4,135,557	\$ 3,457,864
Government grants (Notes 3 and 7).....	235,964	187,785
Investment income (Note 2).....	2,487	3,736
Other income.....	14,153	7,696
<b>TOTAL REVENUE AND SUPPORT</b>	<b>4,388,161</b>	<b>3,657,081</b>
<b>EXPENSES:</b>		
Program services.....	2,772,550	2,487,366
Management and general.....	711,067	628,280
<b>TOTAL EXPENSES</b>	<b>3,483,617</b>	<b>3,115,646</b>
Change in net assets before extraordinary items.....	904,544	541,435
Extraordinary gain (Note 5).....	48,255	99,622
Change in net assets.....	952,799	641,057
Net assets, beginning of year.....	1,257,949	616,892
Net assets, end of year.....	<b>\$ 2,210,748</b>	<b>\$ 1,257,949</b>

## RIVERHEAD CHARTER SCHOOL, INC.

### STATEMENT OF FUNCTIONAL EXPENSES FOR THE YEAR ENDED JUNE 30, 2011

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	<u>Program Services</u>	<u>Management and General</u>	<u>Total</u>
Salaries and wages	\$ 1,360,421	\$ 406,360	\$ 1,766,781
Payroll taxes and related benefits	404,344	120,778	525,122
Advertising	1,854	22	1,876
Occupancy costs	46,893	3,044	49,937
Contracted services	131,465	26,757	158,222
Travel and transportation	283,661	195	283,856
Supplies	57,381	8,304	65,685
Core curriculum	12,960	-	12,960
Telephone and communications	5,402	1,600	7,002
Repairs and maintenance	82,573	23,807	106,380
Equipment	6,311	2,210	8,521
Depreciation and amortization	125,084	37,047	162,131
Interest expense (Note 6)	219,758	65,642	285,400
Conferences	10,432	4,152	14,584
Recruitment	-	-	-
Insurance	19,055	5,643	24,698
Miscellaneous	4,956	5,506	10,462
	<u>\$ 2,772,550</u>	<u>\$ 711,067</u>	<u>\$ 3,483,617</u>

## RIVERHEAD CHARTER SCHOOL, INC.

### STATEMENT OF FUNCTIONAL EXPENSES FOR THE YEAR ENDED JUNE 30, 2010

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	Program Services	Management and General	Total
Salaries and wages	\$ 1,259,164	\$ 393,282	\$ 1,652,446
Payroll taxes and related benefits	356,998	111,503	468,501
Advertising	-	2,919	2,919
Occupancy costs	42,305	3,473	45,778
Contracted services	21,552	61,418	82,970
Travel and transportation	199,632	205	199,837
Supplies	31,567	8,161	39,728
Core curriculum	16,238	-	16,238
Telephone and communications	16,167	5,050	21,217
Repairs and maintenance	79,191	23,912	103,103
Equipment	6,149	3,342	9,491
Depreciation and amortization	150,651	2,294	152,945
Interest expense (Note 6)	277,771	4,230	282,001
Conferences	5,478	708	6,186
Recruitment	3,802	-	3,802
Insurance	17,498	4,515	22,013
Miscellaneous	3,203	3,268	6,471
	<u>\$ 2,487,366</u>	<u>\$ 628,280</u>	<u>\$ 3,115,646</u>

**RIVERHEAD CHARTER SCHOOL, INC.**

**STATEMENTS OF CASH FLOWS  
FOR YEARS ENDED JUNE 30,**

	<b>2011</b>	<b>2010</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Change in net assets.....	\$ 952,799	\$ 641,057
<u>Adjustments to reconcile change in net assets to net cash provided by operating activities:</u>		
Depreciation and amortization.....	162,131	152,945
Extraordinary gain .....	(48,255)	(99,622)
<u>Changes in operating assets and liabilities:</u>		
Prepaid expenses.....	(52,896)	16,090
Accounts receivable.....	91,451	25,255
Grants receivable.....	(44,014)	71,438
Other current assets.....	369,118	-
Security deposits.....	30,000	(30,000)
Accounts payable and accrued expenses.....	105,544	166,840
Due to funding sources and school districts.....	7,494	(67,346)
Deferred revenue.....	5,003	-
<b>Net cash provided by operating activities</b>	<b>1,578,375</b>	<b>876,657</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of fixed assets.....	(225,050)	(117,299)
Purchase of investments.....	(654)	(1,003)
<b>Cash used in investing activities</b>	<b>(225,704)</b>	<b>(118,302)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Repayment to Edison Schools, Inc.....	(253,641)	(204,148)
Repayment of debt.....	(98,396)	(84,358)
<b>Cash used in financing activities</b>	<b>(352,037)</b>	<b>(288,506)</b>
<b>Net change in cash</b>	<b>1,000,634</b>	<b>469,849</b>
Cash, beginning of year.....	<u>2,619,874</u>	<u>2,150,025</u>
Cash, end of year.....	<u>\$ 3,620,508</u>	<u>\$ 2,619,874</u>
<b>OTHER SUPPLEMENTAL INFORMATION:</b>		
Interest paid .....	<u>\$ 285,400</u>	<u>\$ 282,001</u>
<b>NON CASH OPERATING DISCLOSURE:</b>		
Proceeds due from insurance company for building fire .....	<u>\$ -</u>	<u>\$ 369,118</u>

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

# RIVERHEAD CHARTER SCHOOL, INC.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

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### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies of the Riverhead Charter School, Inc. (hereinafter "the School") is presented to assist in understanding the School's financial statements. These financial statements and notes are representations of the School's management, which is responsible for the integrity and objectivity of the financial statements. These accounting policies conform to accounting principles generally accepted in the United States of America and have been consistently applied in the preparation of the financial statements.

Organization: The School is a not-for-profit organization that was incorporated under Article 56 of the Education Law on February 1, 2001 pursuant to a five-year provisional charter granted by the Education Department of the State of New York ("NYSED"). The School's main objective is to offer students a true choice in public education, which promotes love of learning and local exploration. The School's goal is to provide a rigorous community of learning, which is inviting and stimulating to staff and parents, as well as students. The School intends to reverse the current spiral of student failure and meet or exceed State and federal standards, to nurture the individual gifts of every student, and to prepare them for a rewarding community life. On April 21, 2009, the School's charter was renewed by the Education Department of the State of New York through June 30, 2014.

Income Tax Status: The School is exempt from federal income tax under section 501(c)(3) of the Internal Revenue Code and is publicly supported, as described in section 509(a). The School is also exempt from State and local taxes. The School evaluated for uncertain tax positions and has determined that there were no uncertain tax positions for 2011 and 2010.

The School files a Form 990 and respective state and local tax returns. These tax returns are subject to review and examination by federal, state and local taxing authorities. Tax returns for the years ended June 30, 2011, 2010, and 2009 are open for examination by federal and state taxing authorities. The School has determined that it has registered in all states where it is required to be registered.

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. Revenue is recorded as earned and expenses are recorded when incurred.

Revenue Recognition: The School recognizes revenue on government and private grants when reimbursable expenditures under qualified programs are expended. Grants are typically fully expended within a one-year cycle. Tuition income is earned as education is provided to students enrolled at the School.

Advertising: The School uses advertising to promote its program and fundraising events among the public it serves. The production costs of advertising are expensed as incurred.

# RIVERHEAD CHARTER SCHOOL, INC.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

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### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Use of Estimates: The presentation 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 reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates.

Basis of Presentation: Financial statement presentation follows the recommendations of the Financial Accounting Standards Board, specifically for not-for-profit organizations. 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.

Unrestricted net assets - Net assets that are not subject to donor-imposed stipulations.

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

Permanently restricted net assets - Net assets subject to donor-imposed stipulations that must be maintained permanently by the School. Generally, the donors of these assets would permit the School to use all or part of the income earned on any related investments for general or specific purposes.

The School had no restricted net assets at June 30, 2011 or 2010.

Donated Services: The School benefits from volunteer services in program and administrative duties from Board members and other volunteers. Even though these donated services are valuable to the School, and help to advance its mission, no amounts have been reflected in the financial statements for these contributed services inasmuch as such services do not meet the criteria for recognition in the financial statements under generally accepted accounting principles in the United States of America, nor do they create or enhance non-financial assets.

Expense Allocation: Directly identifiable expenses are charged to programs and supporting services. Expenses related to more than one function are allocated to programs and supporting services based upon management estimates.

Contributions: Contributions are recognized when the donor makes a promise to give to the School that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal 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

**RIVERHEAD CHARTER SCHOOL, INC.**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010**

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

Property and Equipment: Property and equipment are stated at original cost. Those assets acquired by gift are carried at fair market value established at the date of acquisition.

Maintenance and repairs are charged to expense and betterments are capitalized. Depreciation expense is computed using the straight-line method over each asset's estimated useful life as follows:

Building.....	25 years
Building improvements.....	10 - 25 years
Equipment.....	3.5 - 5 years

Subsequent Events: The School has evaluated events and transactions that occurred between July 1, 2011 and October 11, 2011, which is the date the financial statements were available to be issued, for possible disclosure and recognition in the financial statements.

**NOTE 2 - INVESTMENTS**

Investments are presented in the consolidated statements of financial position at fair value. A fair value hierarchy has been established based upon the observable inputs to the evaluation of an asset or liability as of the measurement date. The three-level valuation techniques are based upon observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect market assumptions. These two types of inputs create the following fair-value levels (Level 1, 2, and 3):

- Level 1 - quoted prices for identical instruments in active markets;
- Level 2 - quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations the significant inputs for which are observable; and
- Level 3 - instruments the significant inputs for which are unobservable.

All of the investments held by the School are in certificates of deposit ("CD's") which are considered Level 1 investments and are presented in the accompanying financial statements at fair value. The fair value of the CD's is determined based upon quoted prices at June 30, 2011 and 2010.

Interest income from such CD's amounted to \$2,487 and \$3,736 for the years ended June 30, 2011 and 2010 respectively.

# **RIVERHEAD CHARTER SCHOOL, INC.**

## **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2011 AND 2010**

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### **NOTE 3 - CONCENTRATIONS AND COMMITMENTS**

From time to time, the School has cash on deposit with a financial institution in excess of Federal Deposit Insurance Corporation-insured limits. At June 30, 2011, the School did not have cash in excess of insured limits.

During fiscal 2011, approximately 94% of the School's total support and revenue was comprised of tuition income from several Eastern Suffolk County school districts, the largest of which were: Riverhead Central School District (39%), William Floyd School District (28%), Longwood Central School District (18%), South Country District (5%), and other school districts (10%). The remaining 6% was primarily comprised of grants from the Education Department of the State of New York.

Effective July 1, 2008, the School entered into a collective bargaining agreement with its teachers and teacher assistants through the Teachers Association. The agreement, which expired on June 30, 2009, provided for merit-based increases for teachers and teachers assistants of 3% for fiscal 2009. The School and the Teachers Association are currently in negotiations for a successor to the agreement. As of the date of this report, the terms and conditions set forth in the expired agreement will continue, except for salary increases, which are on hold until an agreement is reached.

### **NOTE 4 - CONTRACTUAL OBLIGATIONS**

Prior to July 1, 2008, the School had a management agreement with Edison Schools, Inc. ("Edison") that required Edison, to the extent permitted by law, to provide the School with a complete educational program and the related management and administrative services necessary to implement the program, including billing and collections.

In exchange for its services, the contract specified that Edison would receive a fee based upon the total revenue and earnings of the School, net of debt service and a fixed fee.

On August 22, 2001, the School purchased a building and one acre of land in Calverton, New York for \$850,000. This building currently serves as the schoolhouse for fourth, fifth and sixth grade classes. During February 2002, the School also purchased an additional five acres of adjacent land for \$490,000, upon which a new facility will be constructed to house the entire student body under one roof. Until construction is complete, the School is utilizing modular classrooms for its Kindergarten through third grade classes. The School has completed the construction of its administrative facilities and has constructed a portion of the necessary infrastructure.

## RIVERHEAD CHARTER SCHOOL, INC.

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

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#### NOTE 4 - CONTRACTUAL OBLIGATIONS (continued)

In order to finance these and future capital expenditures, the School borrowed \$4,010,488 from Edison, which was evidenced by two promissory notes and was secured by substantially all assets of the School (the "secured debt"). In addition, to cover day to day operations, the School borrowed additional unsecured working capital advances from Edison (the "unsecured working capital advances"). On June 30, 2008, at the time the agreement with Edison was terminated, the School owed Edison \$3,186,840 for such unsecured working capital advances.

On October 24, 2008, the School and Edison signed a termination agreement with regard to unsecured debt the School owed to Edison. In conjunction with this agreement:

Edison accepted \$3,000,000 in full payment of the unsecured working capital advances it had provided the School. This was evidenced by a promissory note payable at \$1,800,000 during November 2008, with the \$1,200,000 balance payable in sixty monthly payments, commencing in December 2008, of \$22,645 including principal and interest at 5%.

This resulted in forgiveness of debt to the School during fiscal 2008 of \$186,840.

During December 2008, Edison signed an agreement with respect to its secured note. The terms of the termination agreement are as follows:

Edison accepted \$3,725,000 in full settlement of the aforementioned secured debt. This amount is payable over a twenty-year amortization of \$28,880 of principal and interest per month commencing January 2009, with a balloon payment of the then outstanding balance due on the loans' five year anniversary. Providing the School is not in default with any of the terms of the termination agreement, the School, at its option, can renew the loan for three more five-year terms at the same twenty-year amortization as the initial loan. The loan is secured by the School's property which had a net book value of approximately \$2.7 million and \$2.9 million at June 30, 2011 and 2010, respectively. The debt to Edison bears interest at 7%.

The result of this agreement was forgiveness of debt to the School by Edison of \$687,774, which was reflected as forgiveness of debt income during fiscal 2009.

**RIVERHEAD CHARTER SCHOOL, INC.**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010**

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**NOTE 4 - CONTRACTUAL OBLIGATIONS (continued)**

Future obligations pursuant to the outstanding long-term debt obligations to Edison are as follows for the years ending June 30,:

	<u>Due to Edison</u>	<u>Notes Payable</u>	<u>Total</u>
2012 .....	\$246,474	\$105,510	\$351,984
2013 .....	259,084	113,137	372,221
2014 .....	111,519	121,316	232,835
2015 .....	-	130,086	130,086
2016 .....	-	139,489	139,489
Thereafter.....	-	2,881,768	2,881,768
<b>Total.....</b>	<b><u>\$617,077</u></b>	<b><u>\$3,491,306</u></b>	<b><u>\$4,108,383</u></b>

**NOTE 5 - PROPERTY AND EQUIPMENT**

Property and equipment consisted of the following at June 30:

	<u>2011</u>	<u>2010</u>
Land .....	\$ 794,457	\$ 794,457
Building .....	2,701,012	2,455,048
Building improvements.....	674,373	658,190
Equipment.....	<u>216,689</u>	<u>205,532</u>
	4,386,531	4,113,227
Less: accumulated depreciation and amortization.....	<u>( 1,312,157)</u>	<u>( 1,150,027)</u>
	<b><u>\$ 3,074,374</u></b>	<b><u>\$ 2,963,200</u></b>

During fiscal 2011 and 2010, the School incurred interest on its outstanding debt of \$285,400 and \$282,001, respectively. No interest was capitalized in either year as construction was complete and the building was being fully utilized. At June 30, 2011 and 2010, capitalized interest amounted to \$310,214. This has been included in the cost of the administration building at June 30, 2011 and 2010, and is being amortized over the life of the building.

During February 2010, a fire broke out in one of the buildings, destroying approximately 30% of the building, classrooms and its contents. The cost of repairs and resulting settlement of \$369,118 was greater than the net book value of the damaged building resulting in an extraordinary gain of \$99,622 and is reflected as an extraordinary gain on the statements of activities for the year ended June 30, 2010. The remainder of the insurance settlement stemming from the fire was received in fiscal 2011 and is reflected as an extraordinary gain of \$48,255 on the statements of activities for the year ended June 30, 2011.

# RIVERHEAD CHARTER SCHOOL, INC.

## **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2011 AND 2010**

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### **NOTE 5 - PROPERTY AND EQUIPMENT (continued)**

During 2002, the School purchased equipment with federal Public Charter Schools Program grant funds. Pursuant to the contract, the New York State Education Department has the right to reclaim equipment purchased with these funds if the program in conjunction with which they are used is terminated. These assets were fully depreciated as of June 30, 2011 and 2010.

### **NOTE 6 - ACCOUNTS AND GRANTS RECEIVABLE**

Accounts receivable consists of tuition receivable from various Long Island-based public school districts. Of the tuition receivable, 77% is due from South Country Central School District, 18% is due from Center Moriches Union Free School District, and 5% is due from Longwood Central School District as of June 30, 2011. The School has the ability to petition NYSED for monies overdue from the various school districts.

The School uses an allowance method to determine uncollectible accounts and grants receivable. The allowance for doubtful accounts is based primarily on the School's collection efforts and management's analysis of specific outstanding balances. The School does not impose interest or finance charges on overdue receivable balances. Collectability is assessed on an individual account basis, and uncollectible accounts are written off against the allowance after approval by the School Board. As of June 30, 2011, accounts receivable included a balance of approximately \$63,000 which is due from a school district which is disputing the balance and has not paid as of June 30, 2011. As such, the School has set up an allowance for doubtful accounts for the full receivable as the School believes it is unlikely it will collect the balance outstanding.

Furthermore, grants receivable of \$155,092 and \$111,078 at June 30, 2011 and 2010, respectively, were due from NYSED for reimbursable expenses incurred before year-end. All amounts have been deemed collectible at year-end by management.

### **NOTE 7 - GRANTOR RESTRICTIONS**

Financial awards from governmental entities in the form of grants are subject to special audit. Such audits could result in claims against the School for disallowed costs or noncompliance with grantor restrictions. No provision has been made for any liabilities that may arise from such audits since the amounts, if any, cannot be determined at this date.

NYSED requires all charter schools to maintain \$75,000 in a separate account to cover the cost of a potential closure should the School's charter not be renewed. This amount has to be maintained even when the Charter is renewed and has accordingly been reflected as restricted cash on the School's statements of financial position at June 30, 2011 and 2010.

**RIVERHEAD CHARTER SCHOOL, INC.**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010**

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**NOTE 8 - LITIGATION**

The School is subject to certain litigation in the normal course of business. Management does not believe that the outcome of such litigation will materially impact its operations or financial position. No amounts have been reflected in the financial statements for any potential negative results of such lawsuits.

## **OTHER FINANCIAL INFORMATION**



**CERINI**  
*&* LLP  
**ASSOCIATES**  
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 Directors  
Riverhead Charter School, Inc.  
3685 Middle Country Road  
Calverton, New York 11933

We have audited the basic financial statements of Riverhead Charter School, Inc. (hereinafter "the School") as of and for the years ended June 30, 2011 and 2010, and have issued our report thereon dated October 11, 2011. 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.

**Internal Control over Financial Reporting**

In planning and performing our audits, 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 entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of the 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 audits 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 audit committee, management, and others within the School and is not intended to be, and should not be, used by anyone other than these specified parties.

*Corin & Associates LLP*

Bohemia, New York  
October 11, 2011

**RIVERHEAD CHARTER SCHOOL, INC.**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2011 AND 2010**

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**Section I - Findings of Financial Statement Audit**

**NO NEW FINDINGS OR QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2011.**

**RIVERHEAD CHARTER SCHOOL, INC.**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2011 AND 2010**

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**Section II - Prior Audit Findings of Financial Statement Audit**

**THERE WERE NO PRIOR AUDIT FINDINGS OR QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2010.**