

ROCHESTER ACADEMY CHARTER SCHOOL

FINANCIAL STATEMENTS

June 30, 2010

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
Rochester Academy Charter School
Rochester, New York

We have audited the accompanying balance sheets of Rochester Academy Charter School (a New York nonprofit organization) as of June 30, 2010 and 2009 and the related statements of activities and cash flows for the years then ended, and statement of functional expenses for the year ended June 30, 2010. These financial statements are the responsibility of the Organization'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 Organization's 2009 financial statements, where in our report dated October 20, 2009, we expressed an unqualified opinion on those financial statements.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 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 Rochester Academy Charter School as of June 30, 2010 and 2009 and the results of its operations and changes in net assets and 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 a report dated October 22, 2010 on our consideration of Rochester Academy Charter School's internal control over financial reporting, and 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 audit.

Heveron & Heveron

Heveron & Heveron
Certified Public Accountants

Rochester, New York
October 22, 2010

ROCHESTER ACADEMY CHARTER SCHOOL
BALANCE SHEETS
June 30, 2010 and 2009

ASSETS

	<u>2010</u>	<u>2009</u>
<u>Current Assets</u>		
Cash and Cash Equivalents	\$ 143,295	\$ 191,068
Accounts Receivable	69,207	45,000
Grants Receivable	77,633	-
Inventory	<u>9,973</u>	<u>-</u>
Total Current Assets	<u>300,108</u>	<u>236,068</u>
<u>Property and Equipment</u>		
Furniture, Fixtures and Equipment	209,361	109,296
Computers	59,515	28,513
Software	3,924	3,281
Less: Accumulated Depreciation	<u>(58,898)</u>	<u>(18,771)</u>
Net Property and Equipment	<u>213,902</u>	<u>122,319</u>
TOTAL ASSETS	<u>\$ 514,010</u>	<u>\$ 358,387</u>

LIABILITIES AND NET ASSETS

	<u>2010</u>	<u>2009</u>
<u>Current Liabilities</u>		
Accounts Payable	\$ 6,416	\$ 7,729
Accrued Payroll and Benefits	139,854	88,263
Federal and State Aid Payable	-	47,643
Deferred Revenue	<u>2,278</u>	<u>2,546</u>
 Total Current Liabilities	 <u>148,548</u>	 <u>146,181</u>
 <u>Net Assets</u>		
Unrestricted	<u>365,462</u>	<u>212,206</u>
 Total Net Assets	 <u>365,462</u>	 <u>212,206</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u>\$ 514,010</u>	 <u>\$ 358,387</u>

See Independent Auditors' Report and Notes to Financial Statements.

ROCHESTER ACADEMY CHARTER SCHOOL
STATEMENTS OF ACTIVITIES
For The Years Ended June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
<u>Revenues, Gains and Other Support:</u>		
Public School District:		
Revenue - Resident Student Enrollment	\$ 2,211,961	\$ 1,604,479
State Grants	256,506	127,954
Contributions	31,939	51,028
Federal Food Subsidy	37,049	45,000
Other Income	<u>2,675</u>	<u>184</u>
Total Revenues, Gains and Other Support	<u>2,540,130</u>	<u>1,828,645</u>
<u>Expenses:</u>		
<u>Program Services:</u>		
Education	1,435,250	1,111,526
Food Services	<u>89,063</u>	<u>71,073</u>
Total Program Services Expense	1,524,313	1,182,599
<u>Supporting Services:</u>		
Management and General	<u>862,561</u>	<u>418,204</u>
Total Expenses	<u>2,386,874</u>	<u>1,600,803</u>
Excess of Revenues, Gains and Other Support Over Expenses	153,256	227,842
Net Assets - Beginning of Year	<u>212,206</u>	<u>(15,636)</u>
Net Assets - End of Year	<u>\$ 365,462</u>	<u>\$ 212,206</u>

See Independent Auditors' Report and Notes to Financial Statements.

**ROCHESTER ACADEMY CHARTER SCHOOL
STATEMENT OF FUNCTIONAL EXPENSES**

For The Year Ended June 30, 2010

(With Comparative Totals For The Year Ended June 30, 2009)

	<u>Program Services</u>			<u>Totals</u>	
	<u>Education</u>	<u>Food Services</u>	<u>Management and General</u>	<u>2010</u>	<u>2009</u>
Salaries	\$ 773,348	\$ -	\$ 541,841	\$ 1,315,189	\$ 834,657
Employee Benefits and Payroll Taxes	<u>190,023</u>	<u>-</u>	<u>133,138</u>	<u>323,161</u>	<u>167,318</u>
Total Payroll and Related Costs	<u>963,371</u>	<u>-</u>	<u>674,979</u>	<u>1,638,350</u>	<u>1,001,975</u>
Occupancy	187,518	-	20,835	208,353	160,949
Supplies and Materials	122,649	-	17,503	140,152	124,416
Food	-	89,063	-	89,063	71,073
Bad Debt Expense	-	-	45,000	45,000	-
Maintenance and Repairs	38,438	-	4,271	42,709	33,308
Marketing	-	-	34,977	34,977	14,126
Insurance	27,707	-	3,079	30,786	31,910
Outside Services	-	-	26,417	26,417	44,222
Legal and Accounting	-	-	23,496	23,496	21,057
Field Trips and Extra Curricular Activities	14,846	-	-	14,846	10,064
Consultants - Education	14,762	-	-	14,762	33,301
Staff Development	14,427	-	-	14,427	9,470
Equipment Rental	7,255	-	806	8,061	6,238
Telephone	-	-	5,246	5,246	2,947
Other Expenses	1,792	-	1,603	3,395	5,045
Internet Service	3,019	-	336	3,355	3,228
Staff Recruitment	2,847	-	-	2,847	6,903
Dues	<u>505</u>	<u>-</u>	<u>-</u>	<u>505</u>	<u>1,800</u>
Total Expenses Before Depreciation	435,765	89,063	183,569	708,397	580,057
Depreciation	<u>36,114</u>	<u>-</u>	<u>4,013</u>	<u>40,127</u>	<u>18,771</u>
Total Expenses	<u>\$ 1,435,250</u>	<u>\$ 89,063</u>	<u>\$ 862,561</u>	<u>\$ 2,386,874</u>	<u>\$ 1,600,803</u>

See Independent Auditors' Report and Notes to Financial Statements.

ROCHESTER ACADEMY CHARTER SCHOOL
STATEMENTS OF CASH FLOWS
For The Years Ended June 30, 2010 and 2009

	2010	2009
<u>Cash Flow From Operating Activities</u>		
Revenue from School Districts	\$ 2,132,159	\$ 1,652,122
Grant Revenues	178,605	130,500
Miscellaneous Sources	2,675	184
Payments to Vendors for Goods and Services Rendered	(642,743)	(530,120)
Payments to Charter School Personnel for Services Rendered	<u>(1,586,759)</u>	<u>(929,713)</u>
Net Cash Flow Provided By Operating Activities	<u>83,937</u>	<u>322,973</u>
<u>Cash Flow From Investing Activities</u>		
Purchase of Property and Equipment	<u>(131,710)</u>	<u>(141,089)</u>
Cash Flow Used By Investing Activities	<u>(131,710)</u>	<u>(141,089)</u>
Net Increase/(Decrease) in Cash and Cash Equivalents	(47,773)	181,884
Cash and Cash Equivalents - Beginning of Year	<u>191,068</u>	<u>9,184</u>
Cash and Cash Equivalents - End of Year	<u>\$ 143,295</u>	<u>\$ 191,068</u>
 <u>Reconciliation of Change in Net Assets to Net Cash</u>		
<u>Provided by Operating Activities</u>		
Excess of Support and Revenue Over Expenses	\$ 153,256	\$ 227,842
Adjustments to Reconcile Excess of Support and Revenue		
Over Expenses to Net Cash Provided by Operating Activities:		
Depreciation	40,127	18,771
Decrease/(Increase) In:		
Accounts Receivable	(24,207)	(45,000)
Grants Receivable	(77,633)	-
Inventory	(9,973)	-
Increase/(Decrease) In:		
Accounts Payable	(1,313)	(1,091)
Accrued Payroll and Benefits	51,591	72,262
Federal and State Aid Payable	(47,643)	47,643
Deferred Revenue	<u>(268)</u>	<u>2,546</u>
Net Cash Flow Provided By Operating Activities	<u>\$ 83,937</u>	<u>\$ 322,973</u>

See Independent Auditors' Report and Notes to Financial Statements.

ROCHESTER ACADEMY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Rochester Academy Charter School (the School) is a not-for-profit organization that meets a need for a college preparatory school for low achieving students with special emphasis on math and science education in Rochester, New York. The School promotes a safe, caring, and student-centered classroom environment.

The main programs of the School are as follows:

EDUCATION: The School curriculum is focused on mathematics and sciences. The School also integrates multi-cultural themes into the curricula not only through geography and foreign languages, but through each subject area. All courses align with the New York State Learning Standards.

FOOD SERVICES: The School believes that healthy meals are an important part of a child's day. Breakfast and lunch are delivered and served every day. The School subscribes to the New York State free and reduced priced meal program.

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting. The significant accounting policies followed are described below to enhance the usefulness of the financial statements to the reader.

Basis of Presentation

In accordance with accounting principles generally accepted in the United States of America, the School reports information regarding its financial position and activities according to the existence and nature of donor restrictions in three classes of net assets: unrestricted, temporarily restricted, and permanently restricted.

The School also records contributions received as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and nature of any donor restrictions.

Accounting principles generally accepted in the United States of America allow the School to treat as unrestricted, any restricted revenue where the restrictions are met in the same year. The School has elected to follow that reporting method. As a result, all activities in which restrictions are met are recorded in the Unrestricted Net Asset class.

ROCHESTER ACADEMY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
June 30, 2010
(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The following are descriptions of the School's net asset classifications:

Unrestricted: Unrestricted net assets include undesignated resources that are available for the general support of the School's operations.

Temporarily Restricted Net Assets: Temporarily restricted net assets result from contributions subject to donor's restrictions that expire with the passage of time, or by actions of the School. There were no temporarily restricted net assets at June 30, 2010 and 2009.

When donor restrictions from prior years expire, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Permanently Restricted Net Assets: Permanently restricted net assets include resources from contributions where donors have imposed restrictions which do not expire with the passage of time and are not removed by actions of the School. There were no permanently restricted net assets at June 30, 2010 and 2009.

Revenue Recognition

A portion of the School's revenue is derived from grants. Amounts received but not yet earned are reported as deferred revenue.

Funding sources may, at their discretion, amend the grant and contract amounts. In addition, reimbursement for expenses or return of funds, or both, may be requested as a result of noncompliance by the School with the terms of the grants and contracts. The School records such amendments, reimbursements, and returns of funds as an adjustment to revenue in the year of the amendment.

Contributions

Contributions are recorded at the time of receipt or when evidence of a non-conditional promise to give has been received. Promises subject to conditions are not recorded as income until those conditions have been met. Contributions that are expected to be received in future years are recorded at their present value. Contributions are recorded as unrestricted, unless they are subject to donor restrictions, or are required to be used or expected to be received in future years.

**ROCHESTER ACADEMY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
June 30, 2010
(Continued)**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes

The Internal Revenue Service has determined that the School is qualified as a charity exempt under Section 501(c)(3) of the Internal Revenue Code, and has also determined that the School is publicly supported. As a result, no provision for federal or state income taxes has been made.

FASB ASC #740, *Income Taxes*, requires entities to disclose in their financial statements the nature of any uncertain tax positions. Tax years including the year ended June 30, 2009 and later are subject to examination by tax authorities. Areas that IRS and state tax authorities consider when examining tax returns of a charity include, but may not be limited to, tax-exempt status and the existence and amount of unrelated business income. The School does not believe that it has any uncertain tax positions with respect to these or other matters, and has not recorded any unrecognized tax benefits or liability for penalties or interest.

The School is not aware of any circumstances or events that make it reasonably possible that tax benefits may increase or decrease within 12 months of the date of these financial statements.

Accounts and Grants Receivable

Receivables are stated at the amount management expects to collect. Amounts that management believes to be uncollectible, after collection efforts have been completed, are written off. In addition, management evaluates the need for, and if appropriate, provides an allowance to reduce receivables to amounts management expects will be collected. Management determined that no allowances were necessary at June 30, 2010 and 2009.

Property and Equipment

Property and equipment are stated at cost. The School capitalizes property and equipment with a cost of over \$500 and an estimated life of 2 years or more. Depreciation is computed using the straight-line method based on the estimated useful lives of the assets, as follows.

	<u>Years</u>
Furniture, Fixtures and Equipment	5-10
Computers	3-5
Software	3

Depreciation expense amounted to \$40,127 and \$18,771 for the years ended June 30, 2010 and 2009, respectively.

**ROCHESTER ACADEMY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS**

**June 30, 2010
(Continued)**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents

Cash and cash equivalents include all cash on hand and in banks, which, at times, may exceed federally insured limits. The School considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. Certain of these accounts are not federally insured. The School has not experienced any losses in these accounts and does not believe it is exposed to any significant credit risk with respect to cash and cash equivalents.

Cash and cash equivalents consisted of the following at June 30:

	2010	2009
Checking	\$ 118,222	\$ 159,964
Money Market	25,073	31,104
Total	\$ 143,295	\$ 191,068

Use of Estimates in the Preparation of Financial Statements

Accounting principles generally accepted in the United States of America require management to make estimates and assumptions that affect the amounts of assets and liabilities, revenues and expenses, and the disclosure of contingent assets and liabilities. Actual results could vary from those estimates.

Functional Expenses

The costs of providing the various program services have been summarized on a functional basis in the statement of functional expenses. Accordingly, certain costs have been allocated among the program and management and general categories. An immaterial amount of fundraising costs for the years ended June 30, 2010 and 2009 are included in management and general expenses.

Advertising

Advertising costs are expensed as incurred.

NOTE 2 - PENSION EXPENSE

The School participates in the New York State Teachers' Retirement System (System), a cost-sharing, multiple-employer, defined benefit pension plan administered by the New York State Teachers' Retirement Board. The System 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.

**ROCHESTER ACADEMY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS**

June 30, 2010

(Continued)

NOTE 2 - PENSION EXPENSE (Continued)

Plan members who joined the System before July 27, 1976 are not required to make contributions. Those joining after that date and who have less than ten years of service or membership, are required to contribute 3% of their annual salary. Employers are required to contribute at an actuarially determined rate, currently 6.19% and 7.63% of the annual covered payroll for the fiscal years ended June 30, 2010 and 2009, respectively. The total required contributions for the years ended June 30, 2010 and 2009 were \$78,000 and \$41,526, including employer contributions of \$56,100 and \$31,226, respectively.

NOTE 3 - COMMITMENTS

The School is obligated under a non-cancelable operating lease for facilities. The School is responsible for payment of utilities, maintenance, and the first \$15,000 of real property taxes under the terms of the lease. Any real property taxes in excess of \$15,000 are split equally between the lessor and the School. The lease term ends June 30, 2011 with an option to renew for one additional one year term. Rental expense for June 30, 2010 and 2009 totaled \$169,530 and \$120,633, respectively.

Future minimum lease payment commitments are as follows:

<u>Year</u>	<u>Amount</u>
2011	\$ 144,400

Subsequent to June 30, 2010, the School signed a second non-cancelable operating lease for facilities. The lease term is for one year, ending on July 31, 2011, with the option to extend for one more additional year. The annual rent payments total \$125,500.

NOTE 4 - DONATED SERVICES AND GOODS

The School received a donation of textbooks during the years ended June 30, 2010 and 2009 from the Rochester City School District that did meet the criteria for recording as revenue and expense, under accounting principles generally accepted in the United States of America. The textbooks were valued at \$31,939 and \$51,028 for the years ended June 30, 2010 and 2009, respectively.

**ROCHESTER ACADEMY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS**

**June 30, 2010
(Continued)**

NOTE 5 - PRIOR PERIOD ADJUSTMENTS

A prior period adjustment affecting the year ended June 30, 2009 was made. The June 30, 2009 comparative financial statements have been restated to reflect this adjustment. The adjustment was necessary to record income in the proper period. The net adjustment was an increase of \$25,566 in unrestricted net assets.

NOTE 6 - SUBSEQUENT EVENTS

Subsequent events have been evaluated through October 22, 2010, which is the date the statements were available for issuance.

ROCHESTER ACADEMY CHARTER SCHOOL

FEDERAL FINANCIAL ASSISTANCE

SUPPLEMENTARY INFORMATION

For the Year Ended June 30, 2010