

ROCHESTER ACADEMY CHARTER SCHOOL

FINANCIAL STATEMENTS

June 30, 2011

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INDEPENDENT AUDITORS' REPORT

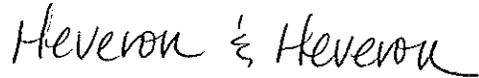
To the Board of Trustees
Rochester Academy Charter School
Rochester, New York

We have audited the accompanying balance sheets of Rochester Academy Charter School (a New York nonprofit organization) as of June 30, 2011 and 2010 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, 2011. 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 2010 financial statements, where in our report dated October 22, 2010, 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, 2011 and 2010 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 31, 2011 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
Certified Public Accountants

Rochester, New York
October 31, 2011

ROCHESTER ACADEMY CHARTER SCHOOL

BALANCE SHEETS

June 30, 2011 and 2010

ASSETS

	<u>2011</u>	<u>2010</u>
<u>Current Assets</u>		
Cash and Cash Equivalents	\$ 741,111	\$ 143,295
Accounts Receivable	-	69,207
Grants Receivable	37,138	77,633
Inventory	8,968	9,973
Prepaid Expenses	<u>3,200</u>	<u>-</u>
Total Current Assets	<u>790,417</u>	<u>300,108</u>
<u>Property and Equipment</u>		
Furniture, Fixtures and Equipment	307,044	209,361
Computers	94,594	59,515
Software	4,797	3,924
Less: Accumulated Depreciation	<u>(123,906)</u>	<u>(58,898)</u>
Net Property and Equipment	<u>282,529</u>	<u>213,902</u>
<u>Other Assets</u>		
Security Deposits	<u>11,000</u>	<u>-</u>
TOTAL ASSETS	<u>\$1,083,946</u>	<u>\$ 514,010</u>

LIABILITIES AND NET ASSETS

	<u>2011</u>	<u>2010</u>
<u>Current Liabilities</u>		
Accounts Payable	\$ 32,460	\$ 6,416
Accrued Payroll and Benefits	200,483	139,854
Deferred Revenue	<u>-</u>	<u>2,278</u>
 Total Current Liabilities	 <u>232,943</u>	 <u>148,548</u>
 <u>Net Assets</u>		
Unrestricted	<u>851,003</u>	<u>365,462</u>
 Total Net Assets	 <u>851,003</u>	 <u>365,462</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u>\$1,083,946</u>	 <u>\$ 514,010</u>

See Independent Auditors' Report and Notes to Financial Statements.

ROCHESTER ACADEMY CHARTER SCHOOL
STATEMENTS OF ACTIVITIES
For The Years Ended June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
<u>Revenues, Gains and Other Support:</u>		
Public School District:		
Revenue - Resident Student Enrollment	\$ 2,992,288	\$ 2,211,961
Other Revenue	7,746	31,939
State Grants	346,951	256,506
Federal Food Subsidy	57,111	37,049
Other Income	<u>5,213</u>	<u>2,675</u>
 Total Revenues, Gains and Other Support	 <u>3,409,309</u>	 <u>2,540,130</u>
 <u>Expenses:</u>		
<u>Program Services:</u>		
Education	2,405,967	1,866,572
Food Services	<u>55,586</u>	<u>89,063</u>
 Total Program Services Expense	 2,461,553	 1,955,635
 <u>Supporting Services:</u>		
Management and General	<u>462,215</u>	<u>431,239</u>
 Total Expenses	 <u>2,923,768</u>	 <u>2,386,874</u>
 Excess of Revenues, Gains and Other Support Over Expenses	 485,541	 153,256
 Net Assets - Beginning of Year	 <u>365,462</u>	 <u>212,206</u>
 Net Assets - End of Year	 <u>\$ 851,003</u>	 <u>\$ 365,462</u>

See Independent Auditors' Report and Notes to Financial Statements.

ROCHESTER ACADEMY CHARTER SCHOOL
STATEMENT OF FUNCTIONAL EXPENSES
For The Year Ended June 30, 2011
(With Comparative Totals For The Year Ended June 30, 2010)

	<u>Program Services</u>			<u>Totals</u>	
	<u>Education</u>	<u>Food Services</u>	<u>Management and General</u>	<u>2011</u>	<u>2010</u>
Salaries	\$ 1,318,997	\$ -	\$ 246,536	\$ 1,565,533	\$ 1,315,189
Employee Benefits and Payroll Taxes	<u>375,419</u>	<u>-</u>	<u>70,170</u>	<u>445,589</u>	<u>323,161</u>
Total Payroll and Related Costs	<u>1,694,416</u>	<u>-</u>	<u>316,706</u>	<u>2,011,122</u>	<u>1,638,350</u>
Occupancy	294,272	-	32,697	326,969	208,353
Supplies and Materials	86,672	-	22,687	109,359	140,152
Consultants - Education	73,998	-	-	73,998	14,762
Food	16,807	55,586	-	72,393	89,063
Field Trips and Extra Curricular Activities	48,642	-	-	48,642	14,846
Staff Development	39,283	-	-	39,283	14,427
Maintenance and Repairs	34,646	-	3,850	38,496	42,709
Insurance	31,793	-	3,533	35,326	30,786
Legal and Accounting	-	-	26,699	26,699	23,496
Marketing	-	-	16,046	16,046	34,977
Other Expenses	457	-	14,708	15,165	3,395
Equipment Rental	13,016	-	1,446	14,462	8,061
Outside Services	-	-	8,630	8,630	26,417
Staff Recruitment	8,280	-	-	8,280	2,847
Telephone	-	-	8,137	8,137	5,246
Internet Service	5,178	-	575	5,753	3,355
Bad Debt Expense	-	-	-	-	45,000
Dues	-	-	-	-	505
Total Expenses Before Depreciation	<u>653,044</u>	<u>55,586</u>	<u>139,008</u>	<u>847,638</u>	<u>708,397</u>
Depreciation	<u>58,507</u>	<u>-</u>	<u>6,501</u>	<u>65,008</u>	<u>40,127</u>
Total Expenses	<u>\$ 2,405,967</u>	<u>\$ 55,586</u>	<u>\$ 462,215</u>	<u>\$ 2,923,768</u>	<u>\$ 2,386,874</u>

See Independent Auditors' Report and Notes to Financial Statements.

ROCHESTER ACADEMY CHARTER SCHOOL
STATEMENTS OF CASH FLOWS
For The Years Ended June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
<u>Cash Flow From Operating Activities</u>		
Revenue from School Districts	\$ 3,026,518	\$ 2,132,159
Grant Revenues	385,168	178,605
Federal Food Subsidy	94,160	-
Miscellaneous Sources	5,213	2,675
Payments to Vendors for Goods and Services Rendered	(829,113)	(642,743)
Payments to Charter School Personnel for Services Rendered	<u>(1,950,495)</u>	<u>(1,586,759)</u>
Net Cash Flow Provided By Operating Activities	<u>731,451</u>	<u>83,937</u>
 <u>Cash Flow From Investing Activities</u>		
Purchase of Property and Equipment	<u>(133,635)</u>	<u>(131,710)</u>
Cash Flow Used By Investing Activities	<u>(133,635)</u>	<u>(131,710)</u>
 Net Increase/(Decrease) in Cash and Cash Equivalents	597,816	(47,773)
 Cash and Cash Equivalents - Beginning of Year	<u>143,295</u>	<u>191,068</u>
 Cash and Cash Equivalents - End of Year	<u>\$ 741,111</u>	<u>\$ 143,295</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	\$ 485,541	\$ 153,256
Adjustments to Reconcile Excess of Support and Revenue		
Over Expenses to Net Cash Provided by Operating Activities:		
Depreciation	65,008	40,127
Decrease/(Increase) In:		
Accounts Receivable	69,207	(24,207)
Grants Receivable	40,495	(77,633)
Inventory	1,005	(9,973)
Prepaid Expenses	(3,200)	-
Security Deposits	(11,000)	-

ROCHESTER ACADEMY CHARTER SCHOOL
STATEMENT OF CASH FLOWS
For The Year Ended June 30, 2011
(Continued)

	2011	2010
Increase/(Decrease) In:		
Accounts Payable	26,044	(1,313)
Accrued Payroll and Benefits	60,629	51,591
Federal and State Aid Payable	-	(47,643)
Deferred Revenue	(2,278)	(268)
Net Cash Flow Provided By Operating Activities	<u>\$ 731,451</u>	<u>\$ 83,937</u>

See Independent Auditors' Report and Notes to Financial Statements.

ROCHESTER ACADEMY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 1 - ORGANIZATION AND 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 subscribed to the New York State free and reduced priced meal program during the year ended June 30, 2010. For the year ended June 30, 2011, food services were provided by the Rochester City School District.

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. There were no temporarily or permanently restricted net assets at June 30, 2011 and 2010.

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, 2011
(Continued)

NOTE 1 - ORGANIZATION AND 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.

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.

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, 2011 and 2010.

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 \$65,008 and \$40,127 for the years ended June 30, 2011 and 2010, respectively.

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

June 30, 2011

(Continued)

**NOTE 1 - ORGANIZATION AND 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.

Accounting standards require entities to disclose in their financial statements the nature of any uncertain tax positions. Tax years including the year ended June 30, 2008 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.

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:

	<u>2011</u>	<u>2010</u>
Checking	\$ 716,019	\$ 118,222
Money Market	<u>25,092</u>	<u>25,073</u>
Total	<u>\$ 741,111</u>	<u>\$ 143,295</u>

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.

ROCHESTER ACADEMY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
June 30, 2011
(Continued)

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2011 and 2010 are included in management and general expenses.

Advertising

Advertising costs are expensed as incurred.

Deferred Revenue

Deferred revenue consists of amounts received prior to when they are earned. The related revenue is recognized when services are performed.

Comparative Financial Information

The financial statements include certain prior year summarized comparative information in total. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended June 30, 2010 from which the summarized information was derived.

Reclassifications

Certain account balances as of June 30, 2010 have been reclassified to conform with the presentation as of June 30, 2011.

Inventories

Inventories consist of school store items and are recorded at cost.

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, 2011
(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 before January 1, 2010 who have less than ten years of service or membership, are required to contribute 3% of their annual salary. Those joining on or after January 1, 2010 are required to contribute 3.5% of their annual salary for their entire working career.

Employers are required to contribute at an actuarially determined rate, currently 8.62% of the annual covered payroll for the fiscal year ended June 30, 2011. Rates applicable to the fiscal years ended June 30, 2010 and 2009 were respectively, 6.19% and 7.63%. The total required contributions for the years ended June 30, 2011, 2010 and 2009 were \$76,669 and \$78,000 and \$-. Total pension expense was \$88,837, \$56,100 and \$30,077 for the years ended June 30, 2011, 2010, and 2009, 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 ended June 30, 2011 and the School renewed for one additional one year term. The annual rent payments total \$144,400. The School signed a second non-cancelable operating lease for facilities. The lease term was for one year, ending on July 31, 2011. The annual rent payments total \$125,500. Rental expense for June 30, 2011 and 2010 totaled \$274,964 and \$169,530, respectively.

Future minimum lease payment commitments are as follows:

<u>Year</u>	<u>Amount</u>
2012	\$ 144,400

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

June 30, 2011

(Continued)

NOTE 4 - SPECIAL EDUCATION AND OTHER SERVICES

Special education services required by students of the School are provided by the Rochester City School District. These financial statements do not reflect revenue or expenses associated with those services.

Beginning in the year ended June 30, 2011, the School also received Federal Food Subsidy in the form of a school lunch program provided by the Rochester City School District. The total aid received for the year ended June 30, 2011 was \$55,586. Prior to June 30, 2011, the School provided their own lunch program.

NOTE 5 - SUBSEQUENT EVENTS

Subsequent events have been evaluated through October 31, 2011, which is the date the statements were available for issuance.

**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
Rochester Academy Charter School

We have audited the financial statements of Rochester Academy Charter School as of and for the year ended June 30, 2011, and have issued our report thereon dated October 31, 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 Rochester Academy Charter School's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Rochester Academy Charter School's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Rochester Academy Charter 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 control deficiencies and 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 in 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 would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be a material weakness, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Rochester Academy Charter School's financial statements are free of material misstatements, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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*.

We noted certain other matters that we reported to management of Rochester Academy Charter School in a separate letter dated August 25, 2011.

This report is intended for the information of management, and the NYS Department of Education, and is not intended to be and should not be used by anyone other than these specified parties.

Heveron & Heveron

Heveron & Heveron
Certified Public Accountants

Rochester, New York
October 31, 2011