

URBAN CHOICE CHARTER SCHOOL

**Financial Statements
as of June 30, 2009
Together with
Independent Auditors' Report**

Bonadio & Co., LLP
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

October 23, 2009

To the Board of Trustees of
Urban Choice Charter School:

We have audited the accompanying statement of financial position of Urban Choice Charter School (the School) (a New York not-for-profit corporation) as of June 30, 2009, and the related statements of activities and change in net assets, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the School's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the School's 2008 financial statements and in our report dated October 29, 2008, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Urban Choice Charter School as of June 30, 2009, and the change in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 15, 2009, 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 important for assessing the results of our audit.

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URBAN CHOICE CHARTER SCHOOL

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2009

(With Comparative Totals for 2008)

	<u>2009</u>	<u>2008</u>
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 373,423	\$ 1,043,684
Grants receivable	193,402	82,991
Public school districts receivable	43,780	5,983
Security deposit and prepaid expenses	<u>48,916</u>	<u>25,000</u>
Total current assets	659,521	1,157,658
PROPERTY AND EQUIPMENT, net	1,023,682	329,096
DESIGNATED CASH	<u>76,290</u>	<u>26,074</u>
	<u>\$ 1,759,493</u>	<u>\$ 1,512,828</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	\$ 109,306	\$ 74,925
Accounts payable - construction	<u>117,080</u>	<u>131,170</u>
Total current liabilities	226,386	206,095
LONG-TERM LIABILITIES:		
Accrued rent	<u>99,384</u>	<u>16,562</u>
Total liabilities	325,770	222,657
NET ASSETS	<u>1,433,723</u>	<u>1,290,171</u>
	<u>\$ 1,759,493</u>	<u>\$ 1,512,828</u>

The accompanying notes are an integral part of these statements.

URBAN CHOICE CHARTER SCHOOL

STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS FOR THE YEAR ENDED JUNE 30, 2009 (With Comparative Totals for 2008)

	<u>2009</u>	<u>2008</u>
OPERATING REVENUE:		
Public school district -		
Resident student enrollment	\$ 3,746,478	\$ 3,165,379
Students with disabilities	118,320	84,331
Federal grants	290,842	142,295
State grants	125,592	239,738
Cafeteria	177,731	160,019
Interest	8,033	31,105
Other	9,427	27,734
	<hr/>	<hr/>
Total operating revenue	4,476,423	3,850,601
OPERATING EXPENSES:		
Program -		
Regular education	3,137,455	2,608,736
Other	443,394	270,522
	<hr/>	<hr/>
Total program expenses	3,580,849	2,879,258
Management and general	752,022	559,202
	<hr/>	<hr/>
Total operating expenses	4,332,871	3,438,460
CHANGE IN NET ASSETS	143,552	412,141
NET ASSETS - beginning of year	1,290,171	878,030
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NET ASSETS - end of year	\$ 1,433,723	\$ 1,290,171
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The accompanying notes are an integral part of these statements.

URBAN CHOICE CHARTER SCHOOL

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2009

(With Comparative Totals for 2008)

	Program			Management and General		Total
	Regular Education	Other	Total	General	2009	2008
Salaries:	\$ 2,072,801	\$ 82,917	\$ 2,155,718	\$ 411,868	\$ 2,567,586	\$ 1,992,095
Faculty and administration	-	110,129	110,129	-	110,129	43,591
Cafeteria	412,295	54,454	466,749	184,780	651,529	546,323
Employee benefits and payroll taxes	249,088	27,526	276,614	14,488	291,102	287,431
Occupancy	5,514	164,460	169,974	-	169,974	142,127
Food and supplies	127,901	-	127,901	6,732	134,633	52,983
Depreciation and amortization	71,174	164	71,338	-	71,338	72,877
Instructional supplies	46,360	-	46,360	-	46,360	15,895
Purchased services	39,776	-	39,776	6,172	45,948	38,712
Travel	34,436	-	34,436	5,902	40,338	41,795
Equipment purchase and rental	-	-	-	35,696	35,696	54,677
Professional fees	27,656	2,725	30,381	1,434	31,815	45,990
Repairs and maintenance	8,271	1,019	9,290	18,518	27,808	35,122
Contracted services	-	-	-	22,161	22,161	16,928
Marketing	17,832	-	17,832	-	17,832	11,169
Student activities	-	-	-	17,605	17,605	2,218
Insurance	13,258	-	13,258	698	13,956	14,464
Telephone	248	-	248	12,499	12,747	8,651
Office supplies	4,249	-	4,249	7,884	12,133	5,527
Staff development	5,099	-	5,099	268	5,367	3,339
Postage	1,497	-	1,497	5,317	6,814	6,546
Other	-	-	-	-	-	-
	\$ 3,137,455	\$ 443,394	\$ 3,580,849	\$ 752,022	\$ 4,332,871	\$ 3,438,460

The accompanying notes are an integral part of these statements.

URBAN CHOICE CHARTER SCHOOL

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED JUNE 30, 2009 (With Comparative Totals for 2008)

	<u>2009</u>	<u>2008</u>
CASH FLOW FROM OPERATING ACTIVITIES:		
Revenue from school districts	\$ 3,827,001	\$ 3,159,396
Grant receipts	306,023	336,155
Cafeteria	177,731	160,019
Other receipts	17,460	27,734
Payments to charter school personnel	(3,112,436)	(2,581,614)
Payments to vendors for goods and services	<u>(1,123,685)</u>	<u>(680,562)</u>
Net cash flow from operating activities	<u>92,094</u>	<u>421,128</u>
CASH FLOW FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	<u>(712,139)</u>	<u>(219,882)</u>
Net cash flow from investing activities	<u>(712,139)</u>	<u>(219,882)</u>
CHANGE IN CASH AND EQUIVALENTS	(620,045)	201,246
CASH AND CASH EQUIVALENTS - beginning of year	<u>1,069,758</u>	<u>868,512</u>
CASH AND CASH EQUIVALENTS - end of year	<u>\$ 449,713</u>	<u>\$ 1,069,758</u>
RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH FLOW FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 143,552	\$ 412,141
Adjustment to reconcile change in net assets to net cash flow from operating activities:		
Depreciation and amortization	134,633	52,983
Changes in:		
Grants receivable	(110,411)	(19,394)
Public school districts receivable	(37,797)	(5,983)
Security deposit and prepaid expenses	(23,916)	2,551
Accounts payable and accrued expenses	(96,789)	(11,248)
Deferred revenue	-	(26,484)
Accrued rent	<u>82,822</u>	<u>16,562</u>
Net cash flow from operating activities	<u>\$ 92,094</u>	<u>\$ 421,128</u>

The accompanying notes are an integral part of these statements.

URBAN CHOICE CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2009

1. THE SCHOOL

Urban Choice Charter School (the School) is an independent public school established under the provisions of the New York State Charter School Act of 1998, enacted as Article 56 of the Education Law. It is the School's mission to provide students in Rochester, New York with a safe, supportive, and intellectually engaging educational environment. The central philosophy of the School is that strong student-teacher relationships are essential to student motivation and achievement. The School is designed to strengthen these bonds and assist students in overcoming the demographic destiny of poverty and exceed state achievement standards.

The School's initial charter is effective through January 2010. The Charter may be renewed by the Board of Regents of the New York State Education Department upon submission of a renewal application during the final year of the initial charter agreement. The School is currently in the process of submitting an application to the New York State Department of Education requesting a six-month extension of their charter through July 2010 and an additional four-year extension through July 2014.

In its fifth year of operation, the 2009-2010 school year, the School is providing educational instruction to students in kindergarten through eighth grade. As part of the School's application for an extension of its charter, the School is seeking approval to add grades nine through twelve. If approved, it is anticipated that grade nine would be added for the 2010-2011 school year and an additional grade would be added in each subsequent year until the School had a grade twelve in the 2013-2014 school year.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States.

Financial Reporting

At June 30, 2009 and 2008, all of the School's net assets were unrestricted.

Revenue Recognition

The School records public school district revenue on a per student basis at rates established by New York State for the school district in which the student resides. Final determination of the revenue earned by the School is subject to review by New York State. Provision is made in the financial statements for anticipated adjustments that may result from such reviews. Differences between amounts provided and final settlements are included in the statement of activities and change in net assets in the year of settlement.

Grant revenue is recognized as the related costs are incurred. Amounts received in advance of incurring the related costs, if any, are reported as deferred revenue.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents

Cash and cash equivalents include bank demand deposit accounts and money market accounts with an original maturity of three months or less at the time of purchase. The bank accounts may, at times, exceed federally insured limits. The money market accounts are not insured. The School has not experienced any losses in these accounts and believes it is not exposed to any significant credit risk with respect to cash and cash equivalents.

Designated Cash

In accordance with New York State Department of Education regulations, the School is required to maintain funds to pay for expenses associated with the potential termination of the School or non-renewal of the School's charter. At June 30, 2009 and 2008, the School had designated funds totaling \$76,290 and \$26,074, respectively, to satisfy this requirement.

Public School Districts and Grants Receivable

Amounts earned, but not collected at year-end, are recorded as accounts receivable. The School records an allowance for doubtful accounts based on historical collection experience and a review of specific amounts outstanding. Accounts are written off against the allowance when uncollectibility becomes known. It was determined that an allowance for doubtful accounts was not required at June 30, 2009.

Property and Equipment

Property and equipment is recorded at cost or fair value at the date of donation. It is the School's policy to capitalize all additions greater than \$3,000 with a useful life in excess of one year. Depreciation and amortization is provided using the straight-line method over the shorter of estimated useful lives or remaining lease term of the related assets that range from three to twelve years.

Deferred Revenue

Amounts received in advance of the related costs being incurred or services provided are recorded as deferred revenue.

Program Services

Regular education includes costs incurred in connection with the educational activities of the School.

Other Services

Other services include costs incurred in connection with other than instructional activities provided to students, i.e., community services, health services, food services, athletic services, music and theatre arts, and other student activities.

Donated Services

Volunteers have donated significant amounts of time in support of the School's activities. However, the value of these services is not reflected in the accompanying statements, as they do not meet the criteria for recognition as set forth under generally accepted accounting principles.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes

The School is a not-for-profit corporation and is exempt from income taxes as an organization qualified under Section 501(c)(3) of the Internal Revenue Code. The School has also been classified by the Internal Revenue Service as an entity that is not a private foundation.

In June 2006, the Financial Accounting Standards Board (FASB) issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes - an Interpretation of FASB Statement No. 109, Accounting for Income Taxes* (FIN 48). This interpretation addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. In accordance with FASB Staff Position No. 48-3, the School has elected to defer the application of FIN 48 until 2010 and currently accounts for uncertain tax positions in accordance with generally accepted accounting principles related to accounting for contingencies. The School is evaluating the impact of adopting the provisions of FIN 48, but does not anticipate it will have a material effect on its financial statements.

Comparative Information

The financial statements include certain prior year summarized comparative information in total, but not by functional expense classifications. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the School's financial statements for the year ended June 30, 2008, from which the summarized information was derived.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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.

3. PUBLIC SCHOOL DISTRICT REVENUE

During the year ended June 30, 2009, the School recognized revenue totaling \$22,068 that resulted from New York State's final reconciliation of the public school district revenue related to the 2006-2007 school year. At the same time, New York State retained \$34,799 as a result of New York State's final reconciliation of public school district revenue for the 2007-2008 school year.

4. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at June 30:

	<u>2009</u>	<u>2008</u>
Leasehold improvements	\$ 1,075,250	\$ 317,252
Furniture and equipment	<u>159,218</u>	<u>88,642</u>
	1,234,468	405,894
Less: Accumulated depreciation and amortization	<u>(210,786)</u>	<u>(76,798)</u>
	<u>\$ 1,023,682</u>	<u>\$ 329,096</u>

5. LINES-OF-CREDIT

The School has a \$25,000 line-of-credit agreement with a bank. Amounts borrowed are collateralized by the School's assets and bear interest at LIBOR (3.16% at June 30, 2009). There were no outstanding amounts at June 30, 2009.

In August 2009, the School entered into a \$500,000 line-of-credit agreement with a second bank through July 2010. Amounts borrowed are collateralized by a depository account at the bank and bear interest at the prime rate less .25%.

6. RETIREMENT PLAN

The School sponsors a tax sheltered annuity 403(b) retirement savings plan (the Plan) for all employees. Employees are eligible to participate if they are at least 21 years of age and have completed at least 500 hours of service annually. The School will match 3% of the employees' contributions to the Plan. The School recognized retirement plan expense related to its contributions to the plan of approximately \$50,000 and \$39,000 during the years ended June 30, 2009 and 2008, respectively.

7. COMMITMENT

In December 2007, the School entered into an operating lease agreement for its facilities through July 2015. Future minimum rental payments under terms of this agreement are as follows for the years ending June 30:

2010	\$	196,956
2011		202,860
2012		208,956
2013		239,134
2014		263,904
Thereafter		<u>271,824</u>
	\$	<u>1,383,634</u>

Rent expense recognized under the terms of this agreement and the previous lease agreement was approximately \$216,000 and \$202,000 for the years ended June 30, 2009 and 2008, respectively. At June 30, 2009, the School had recorded accrued rent of \$99,384 related to the difference between the amount recognized as expense and the amount paid.

8. SUBSEQUENT EVENTS

Subsequent events have been evaluated through October 23, 2009, which is the date the financial statements were available to be issued.

**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**

October 23, 2009

To the Board of Trustees of
Urban Choice Charter School:

We have audited the financial statements of Urban Choice Charter School (a New York not-for-profit corporation) (the School) as of and for the year ended June 30, 2009, and have issued our report thereon dated October 23, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States 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 our 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 control deficiency 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 misstatements on a timely basis.

A significant deficiency is a control deficiency or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

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 material weaknesses, as defined above.

**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**

(Continued)

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*.

We noted certain matters that we have reported to the School's management in a separate letter dated October 2009.

This report is intended solely for the information and use of the Board of Trustees, management, and others within Urban Choice Charter School and is not intended to be and should not be used by anyone other than these specified parties.

Bonadio & Co., LLP