

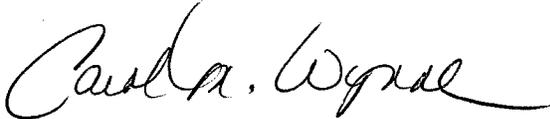
November 1, 2010

James Conway
Office of Audit Services
New York State Education Department
Albany, NY 12234

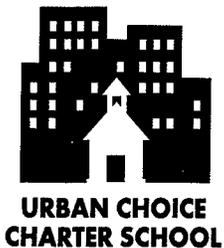
Following are the audited financial statements for the school year ending June 30, 2010, for the Urban Choice Charter School, BEDS code #261600860877, also submitted to the Office of Innovative School Models/Charter School Office as Section III of the 2009-10 UCCS Annual Report.

Please contact me if any further information is needed.

Thank you,



Carol Wynne
Director of Business & Finance
cwynne@urbanchoicecharter.org



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Section III

Guidelines for Audits of the Financial Statements of Charter Schools

The New York charter schools act of nineteen hundred ninety-eight requires that a charter school “shall be subject to the financial audits, the audit procedures, and the audit requirements set forth in the charter. Such procedures and standards shall be applied consistent with generally accepted accounting and audit standards. Independent fiscal audits shall be required at least once annually.”

These guidelines are provided to assist charter schools in New York State and their auditors through the annual audit process. The guidelines are also intended to provide some uniformity in the reporting by charter schools and to assist the Board of Regents in meeting its responsibilities for ensuring accountability over public funds and for reporting annually to the Governor and Legislature on the status of charter schools.

Each audit should meet the following minimum standards:

Audit Requirements:

- An independent and licensed Certified Public Accountant or Public Accountant should perform the audit.
- The audits should be conducted in accordance with generally accepted auditing standards and Government Auditing Standards, issued by the Comptroller General of the United States.
- If the charter school spends \$500,000 or more in federal awards during the fiscal year, an independent audit as prescribed in the federal Office of Management and Budget Circular A-133 must also be completed and filed with the federal government and the State Education Department.

Reporting Requirements:

- The sample format for the financial statements is provided in accordance with Section 2851 of the Education Law.
- The financial statements should be prepared on the accrual basis of accounting in accordance with generally accepted accounting principles for not-for-profit organizations.
- All statements required by Financial Accounting Standards Board (FASB) Statement No. 117, *Financial Statements of Not-for-Profit Organizations*, should be presented including a Statement of Financial Position, Statement of Activities and Statement of Cash Flows. Required note disclosures and others that are deemed appropriate should be included.
- A supplemental schedule of functional expenses, in a format consistent with the attached, should be included and subject to the auditing procedures applied in the audit of the general purpose financial statements. Such supplemental schedule is not a required part of the general purpose financial statements and should be included for the purposes of additional analysis.
- When applicable, the auditor should prepare and submit a management letter. A copy of the management letter should be submitted with the financial statements along with the school’s corrective action plan to address any weaknesses identified in the report or the management letter.

- Reports (the independent auditor's report on the financial statements, report on compliance, report on internal control over financial reporting, management letter, and federal Single Audit, if applicable) must be submitted in electronic form within 120 days of the end of the charter school fiscal year to the following addresses:

State Education Department
Office of Audit Services
89 Washington Avenue Room 524 EB
Albany, New York 12234
FSandA133@mail.nysed.gov

State Education Department
Charter School Office
89 Washington Avenue Room 462 EBA
Albany, New York 12234
charterschools@mail.nysed.gov

URBAN CHOICE CHARTER SCHOOL

**Financial Statements
as of June 30, 2010
Together with
Independent Auditors' Report**

Bonadio & Co., LLP
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

October 26, 2010

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, 2010, 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 2009 financial statements and in our report dated October 23, 2009, 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, 2010, and the changes 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 26, 2010, 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 audit.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements, taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects in relation to the basic financial statements taken as a whole.

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URBAN CHOICE CHARTER SCHOOL

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2010

(With Comparative Totals for 2009)

	<u>2010</u>	<u>2009</u>
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 749,336	\$ 373,423
Grants receivable	169,018	193,402
Public school districts receivable	48,934	43,780
Prepaid expenses	<u>62,545</u>	<u>13,916</u>
Total current assets	1,029,833	624,521
SECURITY DEPOSIT	35,000	35,000
DESIGNATED CASH	76,443	76,290
PROPERTY AND EQUIPMENT, net	<u>910,957</u>	<u>1,023,682</u>
	<u>\$ 2,052,233</u>	<u>\$ 1,759,493</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	\$ 357,838	\$ 109,306
Accounts payable - construction	<u>-</u>	<u>117,080</u>
Total current liabilities	357,838	226,386
ACCRUED RENT	<u>116,470</u>	<u>99,384</u>
Total liabilities	474,308	325,770
NET ASSETS	<u>1,577,925</u>	<u>1,433,723</u>
	<u>\$ 2,052,233</u>	<u>\$ 1,759,493</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, 2010 (With Comparative Totals for 2009)

	<u>2010</u>	<u>2009</u>
OPERATING REVENUE:		
Public school district -		
Resident student enrollment	\$ 4,215,275	\$ 3,746,478
Students with disabilities	186,103	118,320
Federal grants	399,617	290,842
State grants	-	125,592
Cafeteria	205,824	177,731
Contributions	10,164	9,708
Interest	2,390	8,033
Other	<u>20,019</u>	<u>2,228</u>
Total operating revenue	<u>5,039,392</u>	<u>4,478,932</u>
OPERATING EXPENSES:		
Program -		
Regular education	3,573,894	3,137,455
Other	<u>519,439</u>	<u>443,394</u>
Total program expenses	4,093,333	3,580,849
Management and general	<u>801,857</u>	<u>754,531</u>
Total operating expenses	<u>4,895,190</u>	<u>4,335,380</u>
CHANGE IN NET ASSETS	144,202	143,552
NET ASSETS - beginning of year	<u>1,433,723</u>	<u>1,290,171</u>
NET ASSETS - end of year	<u>\$ 1,577,925</u>	<u>\$ 1,433,723</u>

The accompanying notes are an integral part of these statements.

URBAN CHOICE CHARTER SCHOOL

**STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2010**
(With Comparative Totals for 2009)

	Program			Management and General	Total	
	Regular Education	Other	Total		2010	2009
Salaries:						
Faculty and administration	\$ 2,372,834	\$ 132,377	\$ 2,505,211	\$ 424,810	\$ 2,930,021	\$ 2,567,586
Cafeteria	-	95,518	95,518	-	95,518	110,129
Employee benefits and payroll taxes	551,054	49,558	600,612	196,595	797,207	651,529
Occupancy	268,312	29,088	297,400	15,310	312,710	291,102
Food and supplies	6,035	181,916	187,951	-	187,951	169,974
Depreciation and amortization	108,105	13,513	121,618	13,513	135,131	134,633
Instructional supplies	70,925	-	70,925	-	70,925	71,338
Travel	61,066	-	61,066	3,750	64,816	45,948
Equipment purchase and rental	32,593	9,043	41,636	4,032	45,668	40,338
Contracted services	22,531	2,979	25,510	16,456	41,966	27,808
Repairs and maintenance	30,708	3,412	34,120	1,796	35,916	31,815
Professional fees	-	-	-	26,032	26,032	35,696
Marketing	-	-	-	25,965	25,965	22,161
Special activities	12,962	-	12,962	12,962	25,924	17,832
Staff development	-	-	-	21,301	21,301	12,133
Office supplies	-	2,035	2,035	17,805	19,840	12,747
Purchased services	11,243	-	11,243	7,596	18,839	46,360
Telephone	10,742	-	10,742	565	11,307	13,956
Insurance	-	-	-	9,175	9,175	17,605
Postage	5,240	-	5,240	1,747	6,987	5,367
Other	9,544	-	9,544	2,447	11,991	9,323
	<u>\$ 3,573,894</u>	<u>\$ 519,439</u>	<u>\$ 4,093,333</u>	<u>\$ 801,857</u>	<u>\$ 4,895,190</u>	<u>\$ 4,335,380</u>

URBAN CHOICE CHARTER SCHOOL

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED JUNE 30, 2010 (With Comparative Totals for 2009)

	<u>2010</u>	<u>2009</u>
CASH FLOW FROM OPERATING ACTIVITIES:		
Revenue from school districts	\$ 4,396,224	\$ 3,827,001
Grant receipts	424,001	306,023
Cafeteria	205,824	177,731
Other receipts	32,573	17,460
Payments to charter school personnel	(3,574,018)	(3,305,684)
Payments to vendors for goods and services	<u>(969,052)</u>	<u>(799,267)</u>
Net cash flow from operating activities	<u>515,552</u>	<u>223,264</u>
CASH FLOW FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	<u>(139,486)</u>	<u>(843,309)</u>
Net cash flow from investing activities	<u>(139,486)</u>	<u>(843,309)</u>
CHANGE IN CASH AND EQUIVALENTS	376,066	(620,045)
CASH AND CASH EQUIVALENTS - beginning of year	<u>449,713</u>	<u>1,069,758</u>
CASH AND CASH EQUIVALENTS - end of year	<u>\$ 825,779</u>	<u>\$ 449,713</u>
RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH FLOW FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 144,202	\$ 143,552
Adjustment to reconcile change in net assets to net cash flow from operating activities:		
Depreciation and amortization	135,131	134,633
Changes in:		
Grants receivable	24,384	(110,411)
Public school districts receivable	(5,154)	(37,797)
Security deposit and prepaid expenses	(48,629)	(23,916)
Accounts payable and accrued expenses	248,532	34,381
Accrued rent	<u>17,086</u>	<u>82,822</u>
Net cash flow from operating activities	<u>\$ 515,552</u>	<u>\$ 223,264</u>

The accompanying notes are an integral part of these statements.

URBAN CHOICE CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2010

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 was effective through January 2010. In 2010, the School's Charter was renewed by the Board of Regents of the New York State Education Department through July 2014.

The 2009-2010 school year represents the School's sixth year of operation. During this academic year, the School is providing educational instruction to students in kindergarten through ninth grade. The School is seeking approval to add grades ten through twelve. If approved, additional grades will be added in each subsequent year hopefully starting with tenth grade in the 2012-2013 school year and ending with the twelfth grade for the 2014-2015 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, 2010 and 2009, 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.

Program Services

Regular education expenses include costs incurred in connection with the educational activities of the School. Other program expenses 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents

Cash and cash equivalents include bank demand deposit 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, 2010 and 2009, the School had designated funds totaling \$76,443 and \$76,290, respectively, to satisfy this requirement.

Grants and Public School Districts Receivable

Amounts earned, but not collected at year-end, are recorded as receivables. 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, 2010.

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.

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.

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, 2009, from which the summarized information was derived.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes

The School 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). FIN 48 is now known as Accounting Standards Codification (ASC) Section 740. 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. For tax-exempt entities, their tax-exempt status itself is deemed to be an uncertainty, since events could potentially occur to jeopardize their tax-exempt status. ASC Section 740 provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosures, and transition. The School adopted the provisions of ASC Section 740 on July 1, 2009 and there was no impact on the School's financial statements. At the date of adoption and as of June 30, 2010, the School does not have a liability for unrecognized tax benefits. The School files informational returns in the U.S. federal jurisdiction. The School is no longer subject to U.S. federal return examinations by tax authorities for years before 2007.

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, 2010, the School recognized revenue totaling \$48,934 that resulted from New York State's final reconciliation of the public school district revenue related to the 2009-2010 school year.

4. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at June 30:

	<u>2010</u>	<u>2009</u>
Leasehold improvements	\$ 1,083,069	\$ 1,075,250
Furniture and equipment	<u>173,803</u>	<u>159,218</u>
	1,256,872	1,234,468
Less: Accumulated depreciation and amortization	<u>(345,915)</u>	<u>(210,786)</u>
	<u>\$ 910,957</u>	<u>\$ 1,023,682</u>

5. LINES-OF-CREDIT

The School has a \$500,000 line-of-credit agreement with a bank that is renewable on an annual basis. Amounts borrowed are collateralized by a depository account at the bank and bear interest at the prime rate less .25%. There were no outstanding amounts at June 30, 2010.

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 (1.20% at June 30, 2010). There were no outstanding amounts at June 30, 2010.

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 \$61,000 and \$50,000 during the years ended June 30, 2010 and 2009, respectively.

7. COMMITMENT

The School has 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:

2011	\$	202,860
2012		208,956
2013		239,134
2014		263,904
2015		<u>271,824</u>
	\$	<u>1,186,678</u>

Rent expense recognized under the terms of this agreement was approximately \$214,000 for the years ended June 30, 2010 and 2009. The School has recorded accrued rent of \$116,470 and \$99,384 at June 30, 2010 and 2009 related to the difference between the amount recognized as expense and the amount paid.

8. SUBSEQUENT EVENTS

Subsequent events have been evaluated through October 26, 2010, which is the date the financial statements were available to be issued.

URBAN CHOICE CHARTER SCHOOL

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2010**

<u>Federal Grantor/ Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Contract/ Grantor Number</u>	<u>Expenditures</u>
U.S. Department of Education:			
Passed through the New York State Education Department -			
Title I Grants to Local Educational Agencies	84.010	0021104316	\$ 125,253
Title I Grants to Local Educational Agencies	84.010	0021094316	<u>114,971</u>
			240,224
Title I Grants to Local Educational Agencies, Recovery Act	84.389	5021104316	50,894
Improving Teacher Quality State Grants	84.367	0147104316	44,729
Safe and Drug - Free Schools and Communities - State Grants	84.186	0180104316	3,344
Special Education - Grants to States (IDEA, Part B)	84.027	0032110370	39,709
Special Education - Grants to States (IDEA, Part B), Recovery Act	84.391	5032110370	20,605
U.S. Department of Agriculture:			
Passed through the New York State Education Department -			
National School Lunch Program	10.555	N/A	123,157
School Breakfast Program	10.553	N/A	<u>61,589</u>
			<u>\$ 584,251</u>

URBAN CHOICE CHARTER SCHOOL

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2010

1. GENERAL

The accompanying schedule of expenditures of federal awards presents the activity of all federal award programs of Urban Choice Charter School. The schedule includes expenditures of federal awards received directly from federal agencies, as well as federal awards passed through other organizations.

2. BASIS OF ACCOUNTING

The accompanying schedule of expenditures of federal awards has been prepared in conformity with accounting principles generally accepted in the United States.

Amounts included in the accompanying schedule of expenditures of federal awards are actual expenditures for the year ended June 30, 2010. Differences between amounts included in the accompanying schedule of expenditures of federal awards and amounts reported to funding agencies for these programs result from report timing.