

ROCHDALE EARLY ADVANTAGE CHARTER SCHOOL

FINANCIAL STATEMENTS

JUNE 30, 2013

ROCHDALE EARLY ADVANTAGE CHARTER SCHOOL

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Rochdale Early Advantage Charter School

Report on the Financial Statements

We have audited the accompanying financial statements of Rochdale Early Advantage Charter School (the "School"), which comprise the statements of financial position as of June 30, 2013, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. 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. 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the School's preparation and fair presentation of the financial statements in order to design 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. Accordingly we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Rochdale Early Advantage Charter School as of June 30, 2013, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited Rochdale Early Advantage Charter School's 2012 financial statements and we expressed an unmodified opinion on those audited financial statements in our report dated November 9, 2012. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2012 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report October 30, 2013, on our consideration of Rochdale Early Advantage Charter 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* in considering Rochdale Early Advantage Charter School's internal control over financial reporting and compliance.

MBAF CPAs, LLC

New York, NY
October 30, 2013

ROCHDALE EARLY ADVANTAGE CHARTER SCHOOL

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2013

(WITH SUMMARIZED COMPARATIVE INFORMATION FOR JUNE 30, 2012)

ASSETS	2013	2012
Cash	\$ 947,216	\$ 550,961
Cash - restricted	100,089	100,040
Grants and other receivables	29,366	52,431
Prepaid expenses and other assets	10,506	9,943
Property and equipment, net	183,297	225,237
Website, net	156	1,090
	<u>\$ 1,270,630</u>	<u>\$ 939,702</u>
 LIABILITIES AND NET ASSETS		
<hr/>		
LIABILITIES		
Accounts payable and accrued expenses	\$ 38,594	\$ 39,513
Accrued salaries and other payroll related expenses	97,701	56,841
Loan payable	50,000	50,000
Deferred rent incentives	17,846	26,769
Deferred revenue	-	115
	<u>204,141</u>	<u>173,238</u>
 NET ASSETS		
Unrestricted	<u>1,066,489</u>	<u>766,464</u>
	<u>\$ 1,270,630</u>	<u>\$ 939,702</u>

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

ROCHDALE EARLY ADVANTAGE CHARTER SCHOOL

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2013

(WITH SUMMARIZED COMPARATIVE INFORMATION FOR THE YEAR ENDED JUNE 30, 2012)

	2013	2012
OPERATING REVENUE		
State and local per pupil operating revenue	\$ 1,963,085	\$ 1,452,244
Federal grants	43,384	114,513
State grants	5,673	6,756
	<u>2,012,142</u>	<u>1,573,513</u>
EXPENSES		
Program		
General education	1,369,882	1,051,225
Special education	150,774	82,147
Management and general	209,791	206,910
	<u>1,730,447</u>	<u>1,340,282</u>
SURPLUS FROM SCHOOL OPERATIONS	<u>281,695</u>	<u>233,231</u>
SUPPORT AND OTHER INCOME		
Contributions, grants and other income	14,787	11,761
Donated services	-	4,515
Other in-kind	-	24,594
Interest income	3,543	35
	<u>18,330</u>	<u>40,905</u>
CHANGE IN NET ASSETS	300,025	274,136
NET ASSETS - BEGINNING OF YEAR	<u>766,464</u>	<u>492,328</u>
NET ASSETS - END OF YEAR	<u>\$ 1,066,489</u>	<u>\$ 766,464</u>

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

ROCHDALE EARLY ADVANTAGE CHARTER SCHOOL

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2013

(WITH SUMMARIZED COMPARATIVE INFORMATION FOR THE YEAR ENDED JUNE 30, 2012)

	Program Services			Supporting Services	Total 2013	Total 2012
	General Education	Special Education	Total	Management and General		
FUNCTIONAL EXPENSES						
Salaries	\$ 645,674	\$ 129,766	\$ 775,440	\$ 116,661	\$ 892,101	\$ 634,816
Payroll taxes and employee benefits	114,180	19,030	133,210	25,373	158,583	96,289
Classroom supplies and instructional materials	129,737	-	129,737	-	129,737	129,843
Professional fees	85,064	-	85,064	49,701	134,765	110,772
Advertising and recruiting	1,044	-	1,044	-	1,044	6,187
Staff professional development	35,575	-	35,575	-	35,575	71,712
Travel	-	-	-	-	-	79
Insurance	16,632	-	16,632	3,280	19,912	10,549
Field trips	7,002	-	7,002	-	7,002	3,091
Student food services	5,053	-	5,053	-	5,053	1,461
Office expense	9,055	1,509	10,564	4,439	15,003	13,660
Telephone and internet	7,937	-	7,937	246	8,183	7,730
Rent	98,409	-	98,409	3,044	101,453	101,453
Repairs and maintenance	43,479	-	43,479	1,345	44,824	45,402
Furniture and fixtures - non-capitalizable	5,599	252	5,851	337	6,188	5,291
Security service	26,978	-	26,978	834	27,812	27,783
Technology service	14,113	-	14,113	436	14,549	5,982
Postage and delivery	1,302	217	1,519	289	1,808	1,431
Bank fees	-	-	-	-	-	37
Depreciation and amortization	123,049	-	123,049	3,806	126,855	62,199
Donated services	-	-	-	-	-	4,515
	\$ 1,369,882	\$ 150,774	\$ 1,520,656	\$ 209,791	\$ 1,730,447	\$ 1,340,282

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

ROCHDALE EARLY ADVANTAGE CHARTER SCHOOL

STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2013

(WITH SUMMARIZED COMPARATIVE INFORMATION FOR THE YEAR ENDED JUNE 30, 2012)

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 300,025	\$ 274,136
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	126,855	62,199
Changes in operating assets and liabilities:		
Cash - restricted	(49)	(75,036)
Grants and other receivables	23,065	67,854
Prepaid expenses and other assets	(563)	(5,404)
Accounts payable and accrued expenses	(919)	(11,326)
Accrued salaries and other payroll related expenses	40,860	42,248
Deferred rent incentives	(8,923)	(8,923)
Deferred revenue	(115)	(1,979)
	<u>480,236</u>	<u>343,769</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES		
	<u>480,236</u>	<u>343,769</u>
CASH FLOWS USED IN INVESTING ACTIVITIES		
Purchase of property and equipment	<u>(83,981)</u>	<u>(47,561)</u>
NET CASH USED IN INVESTING ACTIVITIES	<u>(83,981)</u>	<u>(47,561)</u>
NET INCREASE IN CASH	396,255	296,208
CASH - BEGINNING OF YEAR	<u>550,961</u>	<u>254,753</u>
CASH - END OF YEAR	<u>\$ 947,216</u>	<u>\$ 550,961</u>

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

ROCHDALE EARLY ADVANTAGE CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2013

1. NATURE OF THE ORGANIZATION

Rochdale Early Advantage Charter School (the "School") is a New York State, not-for-profit educational corporation that was incorporated on December 15, 2009 to operate a charter school pursuant to Article 56 of the Educational Law of the State of New York. On December 15, 2009, the Board of Regents of the University of the State of New York granted the School a provisional charter, valid for a term of five years and renewable upon expiration by the Board of Regents of the University of the State of New York. The School opened its doors in the Fall of 2010 in Rochdale, New York with a rigorous academic program and a highly structured and supportive school culture.

The School, as determined by the Internal Revenue Service, is exempt from Federal income tax under section 501(a) of the Internal Revenue Code ("IRC") as an organization described in Section 501(c)(3) of the IRC and a similar provision under New York State income tax laws. The School has also been classified as an entity that is not a private foundation within the meaning of Section 509(a) IRC and qualifies for deductible contributions as provided in section 170(b)(1)(A)(ii) of the IRC.

The School's primary sources of income are from government funding.

In fiscal year 2013, the School operated classes for students in grades K-3.

2. ACCOUNTING POLICIES

Financial Statement Presentation

The School's financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP").

The classification of the School's net assets and its support, revenues and expenses is based on the existence or absence of donor-imposed restrictions. It requires that the amounts for each of the three classes of net assets – permanently restricted, temporarily restricted, and unrestricted – be displayed in the statement of financial position and that the amounts of change in each of those classes of net assets be displayed in the statement of activities.

These classes are defined as follows:

Permanently Restricted – Net assets resulting from contributions and other inflows of assets whose use by the School is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the School.

Temporarily Restricted – Net assets resulting from contributions and other inflows of assets whose use by the School are limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the School pursuant to those stipulations. When such stipulations end or are fulfilled, such temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities. However, if a restriction is fulfilled in the same period in which the contribution is received, the School reports the support as unrestricted.

Unrestricted – The part of net assets that is neither permanently nor temporarily restricted by donor-imposed stipulations.

The School has no temporarily or permanently restricted net assets at June 30, 2013.

Cash - restricted

An escrow account of \$100,089 is held aside for contingency purposes as required by the New York City Department of Education ("NYCDOE").

ROCHDALE EARLY ADVANTAGE CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Grants and Other Receivables

Grants and other receivables represent unconditional promises to give. Grants and other receivables are expected to be collected within one year, are recorded at net realizable value, and amount to \$29,366 and \$52,431 at June 30, 2013 and 2012, respectively. The School has determined that no allowance for uncollectible accounts for grants and other receivables is necessary at June 30, 2013. Such estimate is based on management's assessments of the creditworthiness of its donors, the aged basis of its receivables, as well as current economic conditions and historical information.

Revenue Recognition

Revenue from the state and local government resulting from the School's charter status is based on the number of students enrolled and is recorded when services are performed in accordance with the charter agreement.

Revenue from federal, state and local government grants and contracts are recorded by the School when qualifying expenditures are incurred and billable. Funds received in advance for which qualifying expenditures have not been incurred are reflected as deferred revenue from state and local government grants in the accompanying statement of financial position.

Donated Goods and Services

The School receives contributed goods and services that are an integral part of its operations. Such goods and services are only recorded as contributions in-kind at their fair value, provided they meet the criteria for recognition.

Property and Equipment

Property and equipment are stated at cost and are being depreciated on the straight-line method over the estimated useful lives of the assets. The School has established a \$1,000 threshold above which assets are evaluated to be capitalized. Leasehold improvements are amortized over the shorter of the useful life of the asset or the life of the lease. Property and equipment acquired with certain government contract funds is recorded as expenses pursuant to the terms of the contract in which the government funding source retains ownership of the property. Maintenance and repairs are charged to expense as incurred; major renewals and betterments are capitalized.

Impairments

The School reviews long-lived assets to determine whether there has been any permanent impairment whenever events or circumstances indicate the carrying amount of an asset may not be recoverable. If the sum of the expected future undiscounted cash flows is less than the carrying amount of the assets, the School recognizes an impairment loss. No impairment losses were required to be recognized for the years ended June 30, 2013 and 2012.

Advertising

The school expenses advertising costs as incurred. The school incurred \$420 and \$832 of advertising costs for the years ended June 30, 2013 and 2012, respectively, which is included in the accompanying statement of functional expenses under advertising and recruiting.

ROCHDALE EARLY ADVANTAGE CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred Rent Expense

Rent expense is recognized on a straight-line basis over the life of the respective lease, including future fixed escalations of rent, rather than in accordance with lease payments. Deferred rent represents the adjustment to future rents as a result of using the straight-line method.

Functional Allocation of Expenses

Expenses that can be directly identified with the program or supporting service to which they relate are charged accordingly. Other expenses by function have been allocated among program and supporting service classifications using bases determined by management based upon benefits received.

Estimates

The preparation of financial statements in conformity with U.S. GAAP 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

Subsequent Events

The School has evaluated events through October 30, 2013, which is the date the financial statements were available to be issued.

Comparative Financial Information

The June 30, 2013 financial statements include certain prior period summarized comparative information in total but not by net asset class. In addition, only certain of the notes to the financial statements for the year ended June 30, 2012 are presented. As a result, the June 30, 2012 comparative information does not include sufficient detail to constitute a presentation in conformity with U.S. GAAP. Accordingly, such June 30, 2012 information should be read in conjunction with the School's financial statements for the year ended June 30, 2012, from which the summarized information was derived.

Income Taxes

The School follows the accounting standard for uncertainty in income taxes. The standard prescribes a minimum recognition threshold and measurement methodology that a tax position taken or expected to be taken in a tax return is required to meet before being recognized in the financial statements. It also provides guidance for derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition.

The School files informational returns in the federal jurisdiction. The School may be subject to income tax examinations by the Internal Revenue Service for all tax years.

The School believes that it has appropriate support for the positions taken on its tax returns. Nonetheless, the amounts ultimately paid, if any, upon resolution of the issues raised by the taxing authorities may differ materially from the amounts filed. Management believes that its nonprofit status would be sustained upon examination.

Should there be interest on underpayments of income tax, the School would classify it as "Interest Expense." The School would classify penalties in connection with underpayments of tax as "Other Expense."

ROCHDALE EARLY ADVANTAGE CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

3. PROPERTY AND EQUIPMENT

Property and equipment consist of the following as of June 30,

	<u>2013</u>	<u>2012</u>	Estimated Useful Lives
Furniture and fixtures	\$ 52,245	\$ 42,346	7 years
Computer hardware and software	30,327	13,744	3 years
Equipment	21,571	20,376	5 years
Software	1,029	-	3 years
Leasehold improvements	<u>304,751</u>	<u>249,476</u>	Life of lease
	409,923	325,942	
Less accumulated depreciation and amortization	<u>(226,626)</u>	<u>(100,705)</u>	
	<u>\$ 183,297</u>	<u>\$ 225,237</u>	

Depreciation and amortization expense for the period ended June 30, 2013 and 2012 was \$125,921 and \$61,265, respectively.

4. WEBSITE

Development costs related to the School's website amounting to \$2,802 have been capitalized. These costs are amortized over the estimated life of three years using the straight-line method. Amortization expense for the periods ended June 30, 2013 and 2012 was \$934. Accumulated amortization totaled \$2,646 and \$1,712 at June 30, 2013 and 2012, respectively.

5. LEASE ARRANGEMENT

Deferred lease incentives are the portion of property and equipment additions that were paid for by the landlord. The lease incentives are being amortized over the term of the underlying lease using the straight-line method. Amortization expense for the years ended June 30, 2013 and 2012 was \$8,923 for each year, which is included in the accompanying statement of functional expenses under rent expense.

The School entered into a sublease agreement with the New Jerusalem Baptist Church, effective July 1, 2010. The School is obligated under a non-cancelable sub-lease for office and classroom space expiring on June 30, 2015, with a one year renewal option. Monthly rental payments are \$9,198 for the term of the lease.

Future minimum rental payments are as follows:

<u>June 30,</u>	
2014	\$ 110,376
2015	<u>110,376</u>
Total	<u>\$ 220,752</u>

Rent expense for each of the years ended June 30, 2013 and 2012 was \$101,453, which is included in the accompanying statement of functional expenses under "rent".

ROCHDALE EARLY ADVANTAGE CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

6. LOAN PAYABLE

On July 16, 2010, the School obtained a \$50,000 non-interest bearing loan from the New York City Charter School Center. The loan is due in full on September 30, 2013. The outstanding principal at both June 30, 2013 and 2012 was \$50,000. The Loan was forgiven subsequent to June 30, 2013.

7. RISK MANAGEMENT

- A. The School is exposed to various risks of loss related to torts; thefts of, damage to, and destruction of assets; injuries to employees; and natural disasters. The School maintains commercial insurance to help protect itself from such risks.
- B. The School entered into contractual relationships with certain governmental funding sources. The governmental agencies may request return of funds as a result of noncompliance by the School, as well as additional funds for the use of facilities. The accompanying financial statements make no provision for the possible disallowance or refund.

8. CONCENTRATIONS

- A. Financial instruments that potentially subject the School to a concentration of credit risk include cash accounts at a major financial institution that, at times, exceeded the Federal Deposit Insurance Corporation insured limit of \$250,000.
- B. The School received approximately 95% of its revenue from the NYCDOE.
- C. The School's grants and other receivables consist of one major grantor.
- D. The School's payables exclusively consist of four major vendors.



Independent Auditor’s 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 Trustees
Rochdale Early Advantage Charter School

We have audited, in accordance with the 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, the financial statements of Rochdale Early Advantage Charter School (the “School”) which comprise the statement of financial position as of June 30, 2013, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 30, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the School’s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the School’s internal control.

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 a 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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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 reported to management of the School in a separate letter dated October 30, 2013.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the School's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

MBAF CPAs, LLC

New York, NY
October 30, 2013