

ROCHDALE EARLY ADVANTAGE CHARTER SCHOOL
FINANCIAL STATEMENTS
PERIOD FROM MARCH 30, 2010
(DATE OF INCEPTION)
TO JUNE 30, 2011

ROCHDALE EARLY ADVANTAGE CHARTER SCHOOL
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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of
Rochdale Early Advantage Charter School

We have audited the accompanying statement of financial position of Rochdale Early Advantage Charter School (the "School") as of June 30, 2011, and the related statements of activities, functional expenses, and cash flows for the period from March 30, 2010 (date of inception) through June 30, 2011. 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.

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 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 Rochdale Early Advantage Charter School as of June 30, 2011 and the changes in its net assets and its cash flows for the period from March 30, 2010 (date of inception) through June 30, 2011, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 25, 2011 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 on 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.

MBAF-ERE CPAs, LLC

New York, NY
October 25, 2011

ROCHDALE EARLY ADVANTAGE CHARTER SCHOOL

STATEMENT OF FINANCIAL POSITION

June 30, 2011

Assets:	
Cash	\$ 254,753
Cash - restricted	25,004
Grants and other receivables	120,285
Prepaid supplies	4,539
Property and equipment, net	238,941
Website, net	2,024
Total Assets	\$ 645,546
Liabilities and Net Assets:	
Liabilities:	
Accounts payable and accrued expenses	\$ 50,839
Accrued salaries and other payroll related expenses	14,593
Deferred rent and other incentives	35,692
Deferred revenue	2,094
Loan payable	50,000
Total Liabilities	153,218
Net assets:	
Unrestricted	477,328
Temporarily restricted	15,000
Total Net Assets	492,328
Total Liabilities and Net Assets	\$ 645,546

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

ROCHDALE EARLY ADVANTAGE CHARTER SCHOOL

STATEMENT OF ACTIVITIES

For the Period From Inception (March 30, 2010) to June 30, 2011	Unrestricted	Temporarily Restricted	Total 2011
Operating revenue:			
State and local per pupil operating revenue	\$ 950,273	\$ -	\$ 950,273
Government grants and contracts	258,360	-	258,360
Total operating revenue	1,208,633	-	1,208,633
Expenses:			
Program services	762,688	-	762,688
Management and general	205,583	-	205,583
Fundraising	-	-	-
Total operating expenses	968,271	-	968,271
Surplus from school operations	240,362	-	240,362
Support and other income:			
Contributions, grants and other income	127,686	15,000	142,686
In-kind contributions	109,276	-	109,276
Interest income	4	-	4
Total support and other income	236,966	15,000	251,966
Change in net assets	477,328	15,000	492,328
Net assets – beginning of period	-	-	-
Net assets – end of period	\$ 477,328	\$ 15,000	\$ 492,328

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

ROCHDALE EARLY ADVANTAGE CHARTER SCHOOL

STATEMENT OF FUNCTIONAL EXPENSES

For the Period From Inception (March 30, 2010) to June 30, 2011

	Program Services	Management and General	Fundraising	Total 2011
Salaries	\$ 313,118	\$ 82,623	\$ -	\$ 395,741
Payroll taxes and employee benefits	31,764	8,382	-	40,146
Classroom supplies and instructional materials	74,790	-	-	74,790
Professional fees	46,105	65,331	-	111,436
Advertising and recruiting	2,540	-	-	2,540
Staff professional development	34,983	30,018	-	65,001
Travel	-	333	-	333
Insurance	9,704	300	-	10,004
Field trips	1,526	-	-	1,526
Student food services	1,694	-	-	1,694
Office expense	11,753	3,731	-	15,484
Telephone and internet	6,645	206	-	6,851
Rent	99,491	3,077	-	102,568
Repairs and maintenance	45,634	1,411	-	47,045
Furniture and fixtures - non-capitalized	2,238	2,466	-	4,704
Security service	23,405	724	-	24,129
Technology service	4,217	130	-	4,347
Postage and delivery	931	246	-	1,177
Printing and photocopying	2,239	590	-	2,829
Interest and bank service charge	-	4,808	-	4,808
Depreciation and amortization	39,011	1,207	-	40,218
In-kind expenses	10,900	-	-	10,900
Total expenses	\$ 762,688	\$ 205,583	\$ -	\$ 968,271

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

ROCHDALE EARLY ADVANTAGE CHARTER SCHOOL

STATEMENT OF CASH FLOWS

For the Period From Inception (March 30, 2010) to June 30, 2011

Cash flows from operating activities:	\$ 492,328
Change in net assets	
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation and amortization	40,218
Changes in operating assets and liabilities:	
Cash - restricted	(25,004)
Grants and other receivables	(120,285)
Prepaid supplies	(4,539)
Accounts payable and accrued expenses	50,839
Accrued salaries and other payroll related expenses	14,593
Deferred rent and other incentives	35,692
Deferred revenue	2,094
Net cash provided by operating activities	485,936
Cash flows from investing activities:	
Purchase of property and equipment	(278,381)
Development of website	(2,802)
Net cash used in investing activities	(281,183)
Cash flows from financing activities:	
Proceeds from loans	150,000
Repayments towards loans	(100,000)
Net cash provided by financing activities	50,000
Net increase in cash	254,753
Cash - beginning of period	-
Cash - end of period	\$ 254,753

Supplemental Disclosures of Cash Flow Information:

Cash paid during the year for:	
Interest	\$ 4,750
Income taxes	\$ -

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

ROCHDALE EARLY ADVANTAGE CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS
June 30, 2011

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. The School was granted a provisional charter on January 15, 2008, 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. While the School is comprised of students from many backgrounds, it is uniquely designed to meet the needs of at-risk students who are currently in the foster care and child welfare system. The School is exempt from Federal income tax under section 501(a) of the Internal Revenue Code as an organization described in Section 501(c)(3) 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) and qualifies for deductible contributions as provided in section 170(b)(1)(A)(ii).

In fiscal year 2011, the School operated classes for students in grades K-2.

2. SIGNIFICANT ACCOUNTING POLICIES:

Financial Statement Presentation

The School's financial statements have been prepared on the accrual basis of accounting.

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 a statement of financial position and that the amounts of change in each of those classes of net assets be displayed in a 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.

ROCHDALE EARLY ADVANTAGE CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS June 30, 2011

Cash

For the purpose of presentation in the statement of cash flows, cash consists of three checking accounts.

Grants and Other Receivables

Grants and other receivables represent unconditional promises to give. At June 30, 2011, the School had \$120,285 of grants and other receivables that are expected to be collected within one year and recorded at net realizable value. The School has determined that no allowance for uncollectible accounts for grants and other receivables is necessary as of June 30, 2011. 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.

The carrying value of grants and other receivables approximates fair value. Management reviews those receivables due in more than one year for impairment and none was determined as of June 30, 2011.

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 capitalized. Leasehold improvements are amortized over the shorter of the 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.

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 recognized for the period ended June 30, 2011.

Planned Maintenance

Costs related to planned major maintenance are expensed as incurred.

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.

ROCHDALE EARLY ADVANTAGE CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS June 30, 2011

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.

Advertising

The School expenses advertising costs as incurred. The School incurred \$234 of advertising costs for the period ended June 30, 2011.

Deferred Rent Expense

In accordance with accounting principles generally accepted in the United States of America, rent expense is recognized on a straight-line basis over the life of the lease, including future escalations of rent, rather than in accordance with lease payments. Deferred rent expense 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 accounting principles generally accepted in the United States of America 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 25, 2011 which is the date the financial statements were available to be issued.

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.

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, 2011

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.

The School files informational returns in the United States federal and New York State jurisdictions. All returns that have been filed are subject to audit.

3. PROPERTY AND EQUIPMENT:

Property and equipment consist of the following as of June 30, 2011:

		Estimated Useful Lives
Furniture and fixtures	\$ 33,037	7 years
Computers hardware and software	4,392	3 years
Equipment	11,286	3 years
Leasehold Improvements	229,666	5 years
	278,381	
Less: accumulated depreciation	(39,440)	
	\$ 238,941	

Depreciation expense for the period ended June 30, 2011 was \$39,440.

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 period ended June 30, 2011 was \$778. Accumulated amortization totaled \$778 as of June 30, 2011.

5. DEFERRED LEASE INCENTIVES:

Deferred lease incentives are the portion of property and equipment additions that were paid for by the landlord. The lease incentives will be amortized over the estimated useful life of five years using the straight-line method. Amortization expense for the period ended June 30, 2011 was \$7,808 and is included in rent expense.

6. LOAN PAYABLE:

On July 16, 2010, the School obtained a \$50,000 loan from the New York City Charter School Center at an interest rate of 0% per annum. The loan is due in full on September 30, 2013. The outstanding principal at June 30, 2011 was \$50,000.

On August 4, 2010, the School obtained a \$100,000 loan from Brita Specialties, Inc. at an interest rate of 12% per annum. The principal and interest was paid in full on January 3, 2011. Interest expense for the period ended June 30, 2011 was \$4,750.

7. AGREEMENT FOR SCHOOL FACILITY:

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 operating 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.

Based on the Memorandum of Understanding dated August 5, 2010, the landlord agreed to defer the annual rent of \$110,376 in order for the School to make

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NOTES TO FINANCIAL STATEMENTS June 30, 2011

improvements required by the Department of Buildings necessary for legal occupancy. The deferred rent will be paid once improvements are complete and the Temporary Certificate of Occupancy is obtained.

Future minimum rental payments are as follow:

Year ended June 30,		
2012	\$	110,377
2013		110,377
2014		110,377
2015		110,377
	\$	441,508

8. RISK MANAGEMENT:

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 protect itself from such risks.

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, because management does not believe that there are any liabilities to be recorded.

9. CONCENTRATION:

- A. Financial instruments that potentially subject the school to concentrations of credit risk consist principally of cash deposits. Accounts at each institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 through 2013.
- B. The School received approximately 72% of its total revenue from per pupil funding from NYCDOE.
- C. Three grantors accounted for 100% of grants and other receivables for the period ended June 30, 2011.
- D. Four vendors accounted for approximately 85% of accounts payable for the period ended June 30, 2011.

10. TEMPORARILY RESTRICTED NET ASSETS:

As of June 30, 2011, temporarily restricted net assets amounted to \$15,000 that was available to fund the NYCDOE required escrow account.

ROCHDALE EARLY ADVANTAGE CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS June 30, 2011

11. SUBSEQUENT EVENTS:

On September 28, 2011, the School signed a second Memorandum of Understanding and paid \$15,000 to New Jerusalem Baptist Church in settlement of the first Memorandum of Understanding (see note #7). This payment covered accumulated deferred rent through September 30, 2011. The difference between the deferred rent initially recorded and the pro-rata share of the \$15,000 is reflected as in-kind contribution on the accompanying statement of activities.