

**ROOSEVELT CHILDREN'S ACADEMY
CHARTER SCHOOL, INC.**

**Financial Statements and Supplemental Information
For the Years Ended June 30, 2008 and 2007
With Report of Independent Auditors**

**ROOSEVELT CHILDREN'S ACADEMY
CHARTER SCHOOL, INC.**

June 30, 2008 and 2007

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REPORT OF INDEPENDENT AUDITORS

Board of Trustees
Roosevelt Children's Academy
Charter School, Inc.

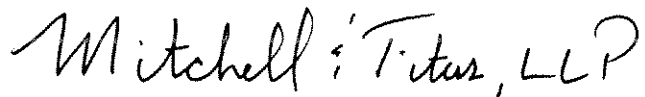
We have audited the accompanying statements of financial position of Roosevelt Children's Academy Charter School, Inc. (the "School") as of June 30, 2008 and 2007, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the School's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the School's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Roosevelt Children's Academy Charter School, Inc. at June 30, 2008 and 2007, and the change in its net assets and its cash flows for the years 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 28, 2008, on our consideration of the School's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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 financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audits were performed for the purpose of forming an opinion on the financial statements of the School taken as a whole. The accompanying schedule of functional expenses is presented for purposes of additional analysis 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.



October 31, 2008

**ROOSEVELT CHILDREN'S ACADEMY
CHARTER SCHOOL, INC.**
Statements of Financial Position
As of June 30, 2008 and 2007

	2008	2007
ASSETS		
<i>Current Assets:</i>		
Cash and cash equivalents	\$ 5,622,602	\$ 1,946,258
Due from government agencies (Note 4)	1,635,384	1,951,895
Prepaid expenses	53,843	14,082
	7,311,829	3,912,235
Total current assets		
Security deposit	2,000	2,000
Property and equipment, net (Note 5)	2,764,905	2,821,268
	\$ 10,078,734	\$ 6,735,503
Total assets		
 LIABILITIES AND NET ASSETS		
<i>Current Liabilities:</i>		
Accounts payable and accrued expenses	\$ 566,990	\$ 454,041
Obligation under capital lease (Note 7)	11,733	16,373
Due to management company (Note 11)	-	451
Loans payable—current portion (Note 8)	586,488	238,604
Advanced billing	1,377,017	1,267,742
	2,542,228	1,977,211
Total current liabilities		
Loans payable—non-current portion (Note 8)	-	363,563
	2,542,228	2,340,774
Total liabilities		
<i>Net Assets:</i>		
Unrestricted	7,536,506	4,394,729
	\$ 10,078,734	\$ 6,735,503
Total liabilities and net assets		

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

**ROOSEVELT CHILDREN'S ACADEMY
CHARTER SCHOOL, INC.**

Statements of Activities
For the Years Ended June 30, 2008 and 2007

	2008	2007
REVENUE AND SUPPORT		
Resident student enrollment	\$ 7,877,190	\$ 7,067,201
Food service	209,931	176,450
Federal funding	297,913	226,444
Special education	165,807	-
State funding	62,997	29,466
Private Contributions	25,000	5,340
Interest income	106,517	58,124
Other income	87,442	37,672
	8,832,797	7,600,697
EXPENSES		
<i>Program Expenses:</i>		
Regular education	4,997,323	4,740,366
Special education	225,647	276,227
	5,222,970	5,016,593
<i>Supporting Services:</i>		
Management and general	468,050	662,251
Total expenses	5,691,020	5,678,844
Change in net assets	3,141,777	1,921,853
Unrestricted net assets at beginning of year	4,394,729	2,472,876
Unrestricted net assets at end of year	\$ 7,536,506	\$ 4,394,729

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

**ROOSEVELT CHILDREN'S ACADEMY
CHARTER SCHOOL, INC.**

Statements of Cash Flows
For the Years Ended June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 3,141,777	\$ 1,921,853
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	345,413	296,715
Decrease (increase) in due from government agencies	316,511	(468,107)
(Increase) decrease in prepaid expenses	(39,761)	8,825
Increase in accounts payable and accrued expenses	112,949	40,597
Increase in advanced billing	109,275	195,682
Decrease in due to management company	(451)	(6,973)
Net cash provided by operating activities	<u>3,985,713</u>	<u>1,988,592</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(289,050)	(706,490)
Net cash used in investing activities	<u>(289,050)</u>	<u>(706,490)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Loan repayments	(15,679)	(223,013)
Payments made under capital lease obligations	(4,640)	(3,458)
Net cash used in financing activities	<u>(20,319)</u>	<u>(226,471)</u>
Net increase in cash and cash equivalents	3,676,344	1,055,631
Cash and cash equivalents at beginning of year	<u>1,946,258</u>	<u>890,627</u>
Cash and cash equivalents at end of year	<u>\$ 5,622,602</u>	<u>\$ 1,946,258</u>
SUPPLEMENTAL DISCLOSURE		
Cash paid for interest	<u>\$ 3,595</u>	<u>\$ 54,285</u>
Non-cash transactions (Note 11)		

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

**ROOSEVELT CHILDREN'S ACADEMY
CHARTER SCHOOL, INC.**
Notes to Financial Statements
June 30, 2008 and 2007

NOTE 1 ORGANIZATION SUMMARY

Roosevelt Children's Academy Charter School, Inc. (the "School") is a public charter school for children located in Roosevelt, New York. In the 2007–2008 school year, the School operated kindergarten and grades one through eight. It educates children on a completely nondiscriminatory and secular basis. The founders and supporters of the School believe that access to a public education of high quality for all children is the foremost issue. The School was chartered during July 2000, and the first classes were offered during the 2000–2001 school year.

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis in accordance with accounting principles generally accepted in the United States for not-for-profit organizations. Accordingly, the School is required to report its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted.

The School's net assets consist of the following:

Unrestricted—Net assets of the School which have not been restricted by an outside donor or by law and are therefore available for use in carrying out the operations of the School.

Cash and Cash Equivalents

The School has defined cash and cash equivalents as cash and short-term, interest-bearing securities with original maturities of three months or less.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation. Depreciation is computed on a straight-line basis over the estimated useful lives of the related assets. Normal replacement and maintenance costs are charged to earnings as incurred, and major renewals and improvements are capitalized. Upon disposition, the cost and related accumulated depreciation is removed from the accounts and the resulting gain or loss for the period is recognized.

**ROOSEVELT CHILDREN'S ACADEMY
CHARTER SCHOOL, INC.**
Notes to Financial Statements
June 30, 2008 and 2007

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

The School capitalizes assets with a cost of \$500 and over. Depreciation is calculated based on the useful lives of the fixed assets as follows:

	Useful Life (Years)
School buildings	19–20
Furniture and fixtures	7
Office equipment	7
Computer equipment	3
Automobiles	3
Leasehold improvements	3–20

Contributions

The School records contributions of cash and other assets as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and nature of donor restrictions. The School records contributions as restricted support if they are received with donor stipulations that limit their use through purpose or time restrictions. When a restriction expires (that is, when a stipulated time restriction ends or a purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions. All contributions received in the year ended 2007 were unrestricted.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of functional expenses. Accordingly, certain costs have been allocated among programs and supporting services benefited. Salaries, wages, and fringe benefits were allocated as direct costs to programs and supporting activity, and as direct costs based on actual costs associated with the activity.

Student Enrollment

Enrollment of available class slots is open to all potential student candidates with those residing in the immediate area given first preference. A lottery is held to award these available slots.

**ROOSEVELT CHILDREN'S ACADEMY
CHARTER SCHOOL, INC.**

Notes to Financial Statements
June 30, 2008 and 2007

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Government Grant Income

The School applies for various government grants each year which are based on several factors such as total students enrolled in the School. Reimbursement under per-pupil grants is the result of the calculation of full-time equivalent ("FTE") students attending the School multiplied by a rate determined each year by New York State. This rate varies based on the district in which the student lives.

Use of Estimates

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

Comparative Data

Certain amounts in the 2007 financial statements have been reclassified to conform to the 2008 presentation.

NOTE 3 CASH AND CASH EQUIVALENTS

The School maintains all of its cash in banks. The accounts in each bank are guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000, which is the maximum allowed by law. The School's management monitors the balances in excess of the FDIC coverage to limit any exposure to loss.

NOTE 4 PUPIL ENROLLMENT AND OTHER REVENUES FROM GOVERNMENT AGENCIES

Under the School's charter school agreement and the Charter Schools Act, the School is entitled to receive funding from both state and federal sources that are available to public schools. These funds include state pupil enrollment funds, federal food subsidies, and Titles I, II, IV, and V funds. The calculation of the amounts to be paid to the School under these programs is determined by the state and is based on complex laws and regulations, enrollment levels, and economic information related to the home school districts of the children enrolled in the School. If these regulations, some of which are relatively new in the State of New York, were to change, or other factors included in the calculations were to change, the level of funding that the School receives could vary significantly.

**ROOSEVELT CHILDREN'S ACADEMY
CHARTER SCHOOL, INC.**
Notes to Financial Statements
June 30, 2008 and 2007

NOTE 4 PUPIL ENROLLMENT AND OTHER REVENUES FROM GOVERNMENT AGENCIES *(continued)*

The amount due from government agencies and included as revenue in the statement of activities consists of the following as of June 30:

	2008	2007
New York State Department of Education (pupil enrollment)	\$ 1,455,202	\$ 1,784,625
Federal Government	75,471	164,396
New York State	<u>104,711</u>	<u>2,874</u>
	<u>\$ 1,635,384</u>	<u>\$ 1,951,895</u>

The amounts are based upon actual amounts received as well as estimates by the management of the School. Management believes these estimates are based upon the best information available at this time. However, actual amounts received, as determined by the state, could vary based on changes in the factors used to calculate the amounts owed.

NOTE 5 PROPERTY AND EQUIPMENT

At June 30, a summary of property and equipment consisted of the following:

	2008	2007
Land	\$ 170,919	\$ 170,919
School building	946,896	946,896
Capitalized lease, modular space	349,985	349,985
Installation costs	90,850	90,850
Leasehold improvements	1,687,751	1,640,426
Furniture and fixtures	221,467	199,578
Computer equipment	284,996	235,498
Office equipment	50,075	46,787
Software	14,362	11,662
Automobile	<u>22,444</u>	<u>22,444</u>
	3,839,745	3,715,045
Less: Accumulated depreciation	<u>(1,243,200)</u>	<u>(893,777)</u>
	2,596,545	2,821,268
Construction in progress	<u>168,360</u>	<u>-</u>
Total	<u>\$ 2,764,905</u>	<u>\$ 2,821,268</u>

**ROOSEVELT CHILDREN'S ACADEMY
CHARTER SCHOOL, INC.**

Notes to Financial Statements
June 30, 2008 and 2007

NOTE 6 DEFINED CONTRIBUTION PLAN

The School offers a 401(k) plan (the "Plan") to substantially all of its employees. Employees are eligible for the Plan immediately upon employment, and participation in the Plan is voluntary. Employees can make pretax contributions of up to 100% of their annual compensation, subject to Internal Revenue Service guidelines. The School matches the employee contribution 100% up to 4% of the employee's annual compensation. The School's contributions recognized in the statement of activities were \$55,038 and \$24,258 for 2008 and 2007, respectively. The Plan assets are held in a separate trust and are not included in the accompanying financial statements. All Plan assets are held for the exclusive benefit of the Plan's participants and beneficiaries.

NOTE 7 LEASE COMMITMENTS

Classes are conducted at three locations, two of which are rented by the School. One of the leases grants the School the right to extend the lease for up to 10 years.

Total future commitments under the leases are as follows:

2009	\$ 43,750
2010	44,523
2011	27,318
2012	<u>28,138</u>
	<u>\$ 143,729</u>

The School is making monthly payments of \$416 under a capital lease for a cargo van that is used to service all three locations. The lease is for 36 months and expires in September 2008. A balloon payment of \$11,589 is due at the end of the lease.

**ROOSEVELT CHILDREN'S ACADEMY
CHARTER SCHOOL, INC.**

Notes to Financial Statements
June 30, 2008 and 2007

NOTE 8 LOANS PAYABLE

Loans payable outstanding consists of the following:

	2008	2007
Building loan payable to Victory Schools in monthly payments of interest and principal of \$9,500, bearing interest at 9.85% per annum. The final payment is due on June 1, 2010.	\$ 287,969	\$ 295,047
Second building, deferred management and central service fees loan payable to Victory Schools in monthly payments of interest and principal of \$13,474, bearing interest at 5.00% per annum. The final payment is due on June 20, 2009.	298,519	307,120
	586,488	602,167
Less: Current maturity included in current liabilities	(586,488)	(238,604)
Non-Current Portion	\$ -	\$ 363,563

In 2008, the School defaulted on its loan payments. Therefore, the entire amount due is current.

NOTE 9 MANAGEMENT COMPANY

Through the year ended June 30, 2007, the School was under a management agreement with Victory Schools ("Victory") to manage the operations of the School. Through that date, Victory assumed the responsibility for all tasks and functions associated with the educational services to be provided to the children at the School in accordance with the terms of the charter and the Charter Schools Act, subject to the appropriate oversight from the School's Board of Trustees. Victory was responsible for designing the curriculum, acquiring educational materials, and providing all financial and accounting functions.

**ROOSEVELT CHILDREN'S ACADEMY
CHARTER SCHOOL, INC.**

Notes to Financial Statements
June 30, 2008 and 2007

NOTE 9 MANAGEMENT COMPANY *(continued)*

Under an agreement dated August 23, 2005, Victory was paid a service fee in the amount equal to the product of the total full-time equivalent enrollment of students in the charter school, as defined under Section 119.1 of New York State Commissioner of Education Regulations, multiplied by \$1,000 (the "Per Pupil Fee"). In addition to the management fees, Victory was paid 15% of the total revenues of the School for central services.

The School terminated its agreement with Victory effective July 1, 2007, and assumed all operating responsibilities. The service fee expense for the year ended June 30, 2007, was \$487,750.

NOTE 10 CONCENTRATION OF RISK

The School is dependent on various government agencies for funding and is responsible for meeting the requirements of such agencies. If the School were to lose students or the related government funding, there could be a substantial effect on its ability to continue operations.

NOTE 11 RELATED-PARTY TRANSACTIONS

The School has outstanding loan balances of \$586,488 and \$602,167 as of June 30, 2008 and 2007, respectively, payable to Victory Schools for funds used to renovate a school building as well as for deferred management fees.

The due to management company balance of \$451 as of June 30, 2007, relates to management and central services fees as discussed in Note 9.

During 2008, certain members of the School's Board of Trustees entered into agreements with the School to provide consulting and accounting services. The agreements were approved by the Board with the related parties abstaining from the vote. Payments to these Board members totaled \$84,479 for the year ended June 30, 2008.

**ROOSEVELT CHILDREN'S ACADEMY
CHARTER SCHOOL, INC.**

Notes to Financial Statements
June 30, 2008 and 2007

NOTE 12 CONTINGENCIES

Government Grants

The School participates in a number of federal and state programs. These programs require that the School comply with certain requirements of laws, regulations, contracts, and agreements applicable to the programs in which it participates. All funds expended in connection with government grants and contracts are subject to audit by government agencies. While the ultimate liability, if any, from such audits of government contracts by government agencies is presently not determinable, it should not, in the opinion of the management, have a material effect on the financial position or result of operations. Accordingly, no provision for any such liability that may result has been made in the accompanying financial statements.

Litigation

The School is involved in a legal suit, brought by its former management company, referred to in Note 9 to the financial statements, for breach of loan agreements and failure to pay fees and costs for services rendered, claiming an amount of \$2,287,563. The matter is to be considered primarily pursuant to the Commercial Arbitration Rules of the American Arbitration Association.

The School and its legal counsel, however, are disputing the claims and believe the School has valid defenses to the claims. Therefore, the School has not recorded in these financial statements any additional obligation to the management company beyond the amounts due under the loan agreements discussed in Note 8 to the financial statements.

ROOSEVELT CHILDREN'S ACADEMY CHARTER SCHOOL, INC.

Schedule of Functional Expenses
For the Year Ended June 30, 2008
(With Comparative Totals for 2007)

	<u>Regular Education</u>	<u>Special Education</u>	<u>Total Program</u>	<u>Management and General</u>	<u>Total 2008</u>	<u>Total 2007</u>
EXPENSES						
<i>Personnel Expenses:</i>						
Salaries and Wages	\$ 2,787,139	\$ 129,595	\$ 2,916,734	\$ 214,500	\$3,131,234	\$ 2,719,014
Fringe Benefits	596,762	27,748	624,510	45,927	670,437	467,407
Total Personnel Expense	<u>3,383,901</u>	<u>157,343</u>	<u>3,541,244</u>	<u>260,427</u>	<u>3,801,671</u>	<u>3,186,421</u>
<i>Operating Expenses:</i>						
Consultants—Education	38,459	-	38,459	-	38,459	9,294
Contracted Services—Management Co.	-	-	-	-	-	487,750
Food	210,905	9,106	220,011	-	220,011	235,619
Insurance	82,549	3,564	86,113	-	86,113	53,929
Supplies and Materials	110,410	4,767	115,177	-	115,177	134,522
Textbooks	127,670	5,512	133,182	-	133,182	155,671
Telephone	32,662	1,600	34,262	4,386	38,648	40,385
Occupancy	197,697	8,652	206,349	2,692	209,041	233,194
Printing	12,924	558	13,482	-	13,482	13,084
Staff Development	79,522	3,433	82,955	-	82,955	144,910
Equipments Rental/Lease	13,701	591	14,292	-	14,292	13,555
Legal	-	-	-	131,620	131,620	142,647
Accounting/Auditing Fees	-	-	-	57,615	57,615	18,469
Maintenance and Repairs	41,530	1,793	43,323	-	43,323	16,061
Transportation (Student)	-	-	-	-	-	3,386
Travel	62,773	2,710	65,483	-	65,483	67,778
Board of Trustees	-	-	-	11,310	11,310	13,385
Depreciation	331,117	14,296	345,413	-	345,413	296,715
Other	271,503	11,722	283,225	-	283,225	412,069
Total Operating Expense	<u>1,613,422</u>	<u>68,304</u>	<u>1,681,726</u>	<u>207,623</u>	<u>1,889,349</u>	<u>2,492,423</u>
Total Expenses	<u><u>\$ 4,997,323</u></u>	<u><u>\$ 225,647</u></u>	<u><u>\$ 5,222,970</u></u>	<u><u>\$ 468,050</u></u>	<u><u>\$5,691,020</u></u>	<u><u>\$ 5,678,844</u></u>

**REPORT OF INDEPENDENT AUDITORS ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED
ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Board of Trustees
Roosevelt Children's Academy Charter School, Inc.
New York, New York

We have audited the financial statements of Roosevelt Children's Academy Charter School, Inc. (the "School") as of and for the year ended June 30, 2008, and have issued our report thereon dated October 31, 2008. 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 an opinion on the effectiveness of the School's internal control over financial reporting. Accordingly, we express no such opinion.

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.

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*.

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

Mitchell & Titus, LLP

October 31, 2008