ROADS CHARTER SCHOOL II

FINANCIAL STATEMENTS

JUNE 30, 2016

(WITH SUMMARIZED COMPARATIVE INFORMATION FOR JUNE 30, 2015)

ROADS CHARTER SCHOOL II

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MBAF
CERTIFIED PUBLIC ACCOUNTANTS AND ADVISORS

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
ROADS Charter School II

Report on the Financial Statements

We have audited the accompanying financial statements of ROADS Charter School II (the "School"), which comprise the statement of financial position as of June 30, 2016, 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 ROADS Charter School II as of June 30, 2016, 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 ROADS Charter School II's 2015 financial statements and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 30, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015, 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 dated October 28, 2016, 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* in considering the School's internal control over financial reporting and compliance.

MBAF CPAs, LLC

New York, NY
October 28, 2016

ROADS CHARTER SCHOOL II

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2016

(WITH SUMMARIZED COMPARATIVE INFORMATION FOR JUNE 30, 2015)

ASSETS	**2016**	**2015**
Cash	$ 297,038	$ 837,763
Cash-restricted	75,026	-
Grants and other receivables	579,737	89,485
Prepaid expenses and other assets	41,999	17,131
Property and equipment, net	45,277	76,214
Due from related parties	194,785	104,526
	$ 1,233,862	**$ 1,125,119**
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued expenses	$ 240,109	$ 192,449
Accrued salaries and other payroll related expenses	303,429	138,103
Due to NYC Department of Education	-	161,316
Due to related parties	57,106	33
	600,644	491,901
NET ASSETS		
Unrestricted	633,218	633,218
	$ 1,233,862	**$ 1,125,119**

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

ROADS CHARTER SCHOOL II

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2016

(WITH SUMMARIZED COMPARATIVE INFORMATION FOR THE YEAR ENDED JUNE 30, 2015)

	2016	2015
OPERATING REVENUE		
State and local per pupil operating revenue	$ 4,245,650	$ 4,456,041
Government grants and contracts	238,376	204,937
	4,484,026	4,660,978
EXPENSES		
Program	4,001,918	3,887,750
Management	933,466	759,138
	4,935,384	4,646,888
(DEFICIENCY) SURPLUS FROM SCHOOL OPERATIONS	(451,358)	14,090
SUPPORT AND OTHER INCOME		
Contributions	451,079	-
Interest and other income	279	-
	451,358	-
CHANGE IN NET ASSETS	-	14,090
NET ASSETS - BEGINNING OF YEAR	633,218	619,128
NET ASSETS - END OF YEAR	**$ 633,218**	**$ 633,218**

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

ROADS CHARTER SCHOOL II

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2016

(WITH SUMMARIZED COMPARATIVE INFORMATION FOR THE YEAR ENDED JUNE 30, 2015)

		Program Services			Supporting Services		
		General Education	Special Education	Total Program	Management and General	2016	2015
Personnel services costs:	**No. of Positions**						
Instructional personnel	29	$ 1,168,443	$ 1,366,900	$ 2,535,343	$ -	$ 2,535,343	$ 2,370,668
Non-instructional personnel	17	-	-	-	589,111	589,111	471,349
Total salaries and wages	46	1,168,443	1,366,900	2,535,343	589,111	3,124,454	2,842,017
Payroll taxes and employee benefits		271,048	317,085	588,133	136,658	724,791	622,096
Advertising and recruiting		762	891	1,653	384	2,037	7,216
Outside services		26,199	25,257	51,456	67,029	118,485	131,350
Management fees		158,773	185,741	344,514	80,051	424,565	445,604
Equipment		11,084	12,967	24,051	5,588	29,639	24,684
Insurance		13,230	15,477	28,707	6,670	35,377	32,638
Student services		127,093	98,414	225,507	-	225,507	111,267
Office supplies and instructional materials		38,468	45,003	83,471	19,399	102,870	291,348
Professional development		19,187	22,446	41,633	9,674	51,307	56,477
Miscellaneous		3,056	3,575	6,631	1,541	8,172	8,276
Telephone and communications		11,557	13,520	25,077	5,827	30,904	-
Depreciation and amortization		25,664	20,078	45,742	11,534	57,276	73,915
		$ 1,874,564	**$ 2,127,354**	**$ 4,001,918**	**$ 933,466**	**$ 4,935,384**	**$ 4,646,888**

The accompanying notes are an integral part of these financial statements

ROADS CHARTER SCHOOL II

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2016

(WITH SUMMARIZED COMPARATIVE INFORMATION FOR THE YEAR ENDED JUNE 30, 2015)

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from operating revenue	$ 4,208,511	$ 4,769,824
Other cash received	279	-
Cash paid to employees and suppliers	(4,717,829)	(4,546,901)
NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES	(509,039)	222,923
CASH FLOW FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(31,686)	-
NET (DECREASE) INCREASE IN CASH	(540,725)	222,923
CASH - BEGINNING OF YEAR	837,763	614,840
CASH - END OF YEAR	**$ 297,038**	**$ 837,763**

Reconciliation of change in net assets to net cash (used in) provided by operating activities:

Change in net assets	$ -	$ 14,090
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation and amortization	57,276	73,915
Loss of disposal on property and equipment	5,347	-
Changes in operating assets and liabilities:		
Cash-restricted	(75,026)	-
Grants and other receivables	(490,252)	(9,180)
Prepaid expenses and other assets	(24,868)	89,297
Due from related parties	(90,259)	(104,526)
Accounts payable and accrued expenses	47,660	114,464
Accrued salaries and other payroll related expenses	165,326	(73,163)
Due to NYC Department of Education	(161,316)	120,667
Due to related parties	57,073	(2,641)
NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES	**$ (509,039)**	**$ 222,923**

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

1. NATURE OF THE ORGANIZATION

ROADS Charter School II (the "School") is a New York State, not-for-profit educational corporation that was incorporated on April 5, 2011 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 April 5, 2011, valid for a term of five years and renewable by the Board of Regents of the University of the State of New York. The School's provisional charter is set to expire at the end of the 2016-17 school year. The School is currently going through the process of charter renewal.

The School opened its doors in the fall of 2012 in the Bronx 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 ("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) of the IRC and qualifies for deductible contributions as provided in section 170(b)(1)(A)(ii) of the IRC.

The School's primary source of income is from government funding.

The New York City Department of Education ("NYCDOE") provides free lunches and transportation directly to a majority of the School's students.

2. SIGNIFICANT 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 as such in the statement of activities.

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash – Restricted

A restricted fund of $75,026 is held aside to cover debts in the event of the School's dissolution as required by The State University of New York.

Grants and Other Receivables

Grants 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 $579,737 and $89,485 at June 30, 2016 and 2015, respectively. The School has determined that no allowance for uncollectible accounts is necessary at June 30, 2016 and 2015. Such estimate is based on management's assessments of the creditworthiness of its grantors, the aged basis of its receivables, as well as current economic conditions. Included in grants and other receivables is a contribution from Roads Inc. in the amount of $451,079 as of June 30, 2016.

Revenue Recognition

Revenue from state and local governments 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 would be reflected as due to the NYCDOE from state and local government grants in the accompanying statement of financial position.

The School receives a substantial portion of its support and revenue from the NYCDOE. If the charter school laws were modified, reducing or eliminating these revenues, the School's finances could be materially adversely affected.

A contribution granted through the New York Community Trust ("NYCT") and Roads Inc. in the amount of $451,079 was determined based on the net assets deficit of Roads II at the end of the fiscal year.

Net Assets

Unrestricted net assets consist of revenues derived from government agencies, public contributions and other revenues for youth education. These net assets account for resources over which the Board of Trustees has discretionary control to use in carrying on the operations of the School.

Donated Goods and Services

Donated services are recognized as contributions if the services (a) create or enhance non-financial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the School. Donated goods are recognized if the goods provide a benefit to the School and would have otherwise been purchased. There were no donated services received during the years ended June 30, 2016 and 2015.

Premises Provided by Government Authorities

The School does not record any in-kind contributions and related costs with respect to dedicated and shared space provided to it by the NYCDOE as the premises are temporary in nature, is excess shared space whereby a fair value cannot be determined, and is industry practice.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and Equipment

Property and equipment are stated at cost and are depreciated on the straight-line method over the estimated useful lives of the assets. The School has established a $2,500 threshold above which assets are evaluated to be capitalized. Property and equipment acquired with certain government contract funds is recorded as an expense 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.

Impairment

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 years ended June 30, 2016 and 2015.

Advertising

The School expenses advertising costs as incurred. The School incurred $2,037 and $7,216 in advertising costs for the years ended June 30, 2016 and 2015, respectively, which is included in the accompanying statement of functional expenses under advertising and recruiting.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis. 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 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 28, 2016, which is the date the financial statements were available to be issued.

Comparative Financial Information

The June 30, 2016 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 June 30, 2015 are presented. As a result, the June 30, 2015 comparative information does not include sufficient detail to constitute a presentation in conformity with U.S. GAAP. Accordingly, such June 30, 2015 information should be read in conjunction with the School's financial statements for the year ended June 30, 2015, 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, disclosure, and transition.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Taxes (Continued)

The School files informational returns in the Federal and New York State jurisdictions. The School is subject to federal, state, or local income tax examination for all fiscal years in which informational returns were filed.

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 accrued for each year. 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 income tax as other expense.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued an accounting standard update which affects the revenue recognition of entities that enter into either (1) certain contracts to transfer goods or services to customers or (2) certain contracts for the transfer of nonfinancial assets. The update indicates an entity should recognize revenue in an amount that reflects the consideration the entity expects to be entitled to in exchange for the goods or services transferred by the entity. The update is to be applied to the beginning of the year of implementation or retrospectively and is effective for annual periods beginning after December 15, 2018 and in interim periods in annual periods beginning after December 15, 2019. Early application is permitted but no earlier than annual reporting periods beginning after December 31, 2016. The School is currently evaluating the effect the update will have on its financial statements.

In February 2016, the FASB issued an accounting standard update which amends existing lease guidance. The update requires lessees to recognize a right-of-use asset and related lease liability for many operating leases now currently off-balance sheet under current U.S. GAAP. Accounting by lessors remains largely unchanged from current U.S. GAAP. The update is effective using a modified retrospective approach for fiscal years beginning after December 15, 2019, and for interim periods within fiscal years beginning after December 15, 2020, with early application permitted. The School is currently evaluating the effect the update will have on its financial statements.

In August 2016, the FASB issued an accounting standard update which aims to improve information provided to creditors, donors, grantors, and others while also reducing complexity and costs. The update is the first phase of a project regarding not-for-profits which aims to improve and simplify net asset classification requirements and improve the information presented and disclosed in financial statements about liquidity, cash flows, and financial performance. The update is effective retrospectively for financial statements issued for fiscal years beginning after December 15, 2017, and interim periods within fiscal years beginning after December 15, 2018, with earlier application permitted. The School is currently evaluating the effect the update will have on its financial statements.

Reclassification

Certain amounts in the prior year financial statements have been reclassified for comparative purposes to conform to the presentation in the current year financial statements. This reclassification had no effect on previously reported change in net assets.

3. GRANTS AND OTHER RECEIVABLES

Grants and other receivables consist of federal and state entitlements and grants. The School expects to collect these receivables within one year. Grants receivable consist of the following as of June 30:

	2016	2015
Title I	$ 69,287	$ 82,493
Title II	6,569	6,992
NYS OSC	51,845	-
NYC DOE	957	-
Contribution from NYCT	451,079	-
	$ 579,737	$ 89,485

4. PROPERTY AND EQUIPMENT

Property and equipment consist of the following at June 30:

	2016	2015	Estimated Useful Lives
Furniture and fixtures	$ 111,657	$ 111,657	5 years
Equipment	159,684	135,740	3 years
Software	53,843	46,101	3 years
	325,184	293,498	
Less: accumulated depreciation and amortization	(279,907)	(217,284)	
	$ 45,277	$ 76,214	

Depreciation and amortization expense for the years ended June 30, 2016 and 2015 was $57,276 and $73,915, respectively.

5. RELATED PARTY TRANSACTIONS

The School is an affiliate of Roads School, Inc. (“Roads Inc.”), a not-for-profit organization dedicated to supporting public schools and helping to start and manage charter schools. During the year ended June 30, 2014, the School entered into an agreement (the “Agreement”) with Roads Inc. which provides management, fundraising, and other administrative support services to the School.

Pursuant to the terms of the Agreement, the School pays a management fee equivalent to 10% of all public revenues, defined as per-pupil revenues, received by the School during the year. Services provided include general management services. For the years ended June 30, 2016 and 2015, the School incurred management fees of $424,565 and $445,604, respectively.

A contribution in the amount of $451,079 was given to Roads II from Roads Inc. in order to cover the deficit in the year ended June 30, 2016. This contribution amount is made through the NYCT to Roads Inc. to be used by the Board of Directors discretion to cover school deficits.

The balance due from Roads Inc. amounted to $194,785 and $104,526 for the years ended June 30, 2016 and 2015, respectively. The balance due to Roads Inc. amounted to $54,031 for the year ended June 30, 2016. These amounts are comprised of expenses paid by Roads Inc. on behalf of the School, and vice versa.

5. RELATED PARTY TRANSACTIONS (CONTINUED)

For operational efficiency and purchasing power, the School also shares expenses with Roads Charter School I ("Roads I"), which is related by common management. At June 30, 2016 and 2015, the balance due to Roads I from the School amounted to $3,075 and $33, respectively.

6. AGREEMENT FOR SCHOOL FACILITY

The School has entered into a verbal agreement (the "Agreement") with the NYCDOE for dedicated and shared space at a New York City public school located at 1010 Rev. James A Polite Ave, Bronx, New York. The School is not responsible for rent, utilities, custodial services, maintenance, or school safety. Approximately 10,700 square feet is allocated to the School. The Agreement commenced on July 1, 2012 at a cost of $1 per year. In accordance with industry standards, the amount has not been recorded. The School will be responsible for any overtime-related costs for services provided beyond the regular opening hours. For the years ended June 30, 2016 and 2015, the School incurred no overtime permit fees.

7. PENSION PLAN

The School adopted a 401(k) profit sharing plan (the "Plan") which covers most of the employees. The Plan is a defined contribution plan. Employees are eligible to enroll in the Plan on a monthly date with no minimum service time required. The Plan provides for the School to contribute up to 5% of participating employee salary. The School contribution becomes fully vested immediately. For the years ended June 30, 2016 and 2015, pension expense for the School was $52,648 and $50,007, respectively, which is included in payroll taxes and employee benefits in the accompanying statement of functional expenses.

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 help 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.

9. CONCENTRATIONS

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.

The School received approximately 95% and 96% of its total revenue from per pupil funding from the NYCDOE for the years ended June 30, 2016 and 2015, respectively.

Three major grantors accounted for 99% of grants receivable at June 30, 2016. Two major grantors accounted for 100% of grants receivable at June 30, 2015.

Two vendors accounted for approximately 88% of accounts payable at June 30, 2016. Two vendors accounted for approximately 73% of accounts payable at June 30, 2015.

MBAF
CERTIFIED PUBLIC ACCOUNTANTS AND ADVISORS

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
ROADS Charter School II

We have audited, 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, the financial statements of ROADS Charter School II (the "School"), which comprise the statement of financial position as of June 30, 2016, 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 28, 2016.

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 School'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 28, 2016.

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 28, 2016

ROADS Charter School II

Communication With Those Charged With Governance

OCTOBER 28, 2016

MBAF
CERTIFIED PUBLIC ACCOUNTANTS AND ADVISORS

MBAF
CERTIFIED PUBLIC ACCOUNTANTS AND ADVISORS

October 28, 2016

To the Audit Committee
ROADS Charter School II

We have audited the financial statements of ROADS Charter School II (the "School") for the year ended June 30, 2016 and are prepared to issue our report thereon dated October 28, 2016. Professional standards require that we provide you with the following information related to our audit. This letter is divided into two sections: 1) required communications from the auditors to those with audit oversight responsibilities and 2) opportunities for strengthening internal controls or enhancing operating efficiency and our related recommendations.

REQUIRED COMMUNICATIONS

A. Our Responsibility under U.S. Generally Accepted Auditing Standards:

As stated in our engagement letter April 14, 2016, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities. Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement. As part of our audit, we considered the internal control of ROADS Charter School II. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control. We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters.

B. Planned Scope and Timing of the Audit:

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on June 2016.

C. Auditor Independence:

We affirm that MBAF CPAs, LLC is independent with respect to ROADS Charter School II.

D. Qualitative Aspects of Accounting Practices:

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by ROADS Charter School II are described in Note 2 to the financial statements. We noted no transactions entered into by the School during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

E. Accounting Estimates Used in the Financial Statements:

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

Allowance for Doubtful Accounts:
As of June 30, 2016, ROADS Charter School II recorded grants receivable of $579,737. Management concluded that no allowance for doubtful accounts was necessary. Management calculated based on the assessment of the credit-worthiness of the School's grantors, the aged basis of the receivables, as well as economic conditions and historical information. Based on our audit procedures which included a discussion with School's management, we concur with management's conclusion.

Functional Statement Allocation:
Management's estimate of the allocation of functional expenses is directly identified with the program or supporting service to which they relate. We evaluated the key factors and assumptions used to develop the estimate in determining that it is reasonable in relation to the financial statements taken as a whole.

Depreciation:
Management's estimate of depreciation is based on estimated useful lives of assets. We evaluated the estimated useful lives of assets in comparison to generally accepted accounting principles in determining that it is reasonable in relation to the financial statements taken as a whole.

F. Sensitive Disclosures Affecting the Financial Statements:

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure(s) affecting the financial statements were:

The disclosure of Related Party Transactions in Note 5 to the financial statements which describes the management agreement and intercompany activity with the schools.

The disclosure of Risk Management in Note 8 to the financial statements which describes various risks to which the School is exposed.

G. Corrected and Uncorrected Misstatements:

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. We will identify those adjustments proposed both corrected and uncorrected:

Proposed and Corrected:

In the current year, there were 11 audit adjustments (2 reclassification adjustments and 9 prepared by client) that increased net assets by approximately $518,000. In the prior year, there were 20 audit adjustments (3 reclassification adjustments and 5 prepared by client) that decreased net assets by approximately $166,000.

The most significant adjustments were:

- To increase net assets by approximately $66,500 to record amounts for accrued salaries expenses that were related to prior year but were left as a running balance into the current year.

- To increase net assets by approximately $38,200 to adjust accumulated depreciation expense of the current year as the fixed assets from the prior year were depreciated by an incorrect large amount.

- To correct intercompany balances approximately by $17,600 creating no increase or decrease in net assets.

- To increase net assets by approximately $451,000 to record a contribution receivable given to offset the deficiency from school operations.

Proposed and Uncorrected:

There were no audit adjustments proposed and uncorrected.

H. Audit Difficulties and Disagreements with Management:

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report.

We are pleased to report that no such disagreements arose during the course of our audit.

I. Management Representations:

We have requested certain representations from management that are included in the management representation letter dated October 28, 2016.

J. Management Consultations with Other Independent Accountants:

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion" on certain situations. If a consultation involves application of an accounting principle to the School's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

K. Other Audit Findings or Issues:

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the School's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

OPPORTUNITIES FOR STRENGTHENING INTERNAL CONTROLS OR ENHANCING OPERATING EFFICIENCY

Student Files:

Our testing of student files revealed five special education students with IEPs that have not been updated within the past year. We recommend that the School ensures students' annual and triennial reviews are conducted by the Committee on Special Education, and that the School works with the School psychologist and other necessary parties to schedule meetings to update the IEPs and ensure that students are receiving the proper level of services.

Employee Testing:

Neither a termination letter nor an off boarding checklist could be found for an employee terminated in the fiscal year. Management explained that the process was not performed due to the HR Director position being vacant at the time. We recommend that another management or executive level administrator be trained in this process and assigned to perform should the HR Director be unavailable, whether by absence or vacancy of position.

Cash Disbursement Testing:

Our testing of cash disbursements revealed instances where purchase request forms, authorized signatures, and received and paid stamps were missing. We recommend that approval is obtained for all expenses in accordance with the School's Financial Policies and Procedures Manual.

Payroll Reconciliation:

Sound internal controls mandate that reconciliation be performed between IRS Form 941 *Employers Quarterly Federal Tax Return* and the School's general ledger. We noted that during the fiscal year ended June 30, 2016 reconciliations were not performed timely. Accordingly, we strongly recommend that not only should a reconciliation be prepared, but such a reconciliation be performed on quarterly basis. This process will highlight any discrepancies in either the Form 941 or the School's books and records.

Bank Reconciliation:

During our audit, several adjustments were needed to reconcile and correct the books and records of the School. We recommend that the School carefully review all reconciling items on the bank reconciliation.

In addition, the number of outstanding checks should be reviewed periodically and steps should be taken to investigate all stale checks.

We wish to thank management and personnel for their support and assistance during our audit. We would be pleased to further discuss the contents of this report with you at your convenience.

This information is intended solely for the use of the Audit Committee, Board of Trustees, and management of ROADS Charter School II and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

MBAF CPAs, LLC

MBAF CPAs, LLC