

COMMUNITY ROOTS CHARTER SCHOOL
(A Not-For-Profit Corporation)

FINANCIAL STATEMENTS

JUNE 30, 2010 AND 2009

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INDEPENDENT AUDITORS' REPORT

TO THE BOARD OF TRUSTEES COMMUNITY ROOTS CHARTER SCHOOL

We have audited the accompanying statements of financial position of Community Roots Charter School (the "School") (a not-for-profit corporation) as of June 30, 2010 and 2009, 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. The prior period summarized comparative information has been derived from the School's 2009 financial statements and, in our report dated October 26, 2009, we expressed an unqualified opinion on those financial statements.

We conducted our audits 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 audits 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 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 the School as of June 30, 2010 and 2009, and the changes in its net assets and its cash flows for the years then ended, 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 22, 2010 on our consideration of the School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and 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 read in conjunction with this report in considering the results of our audit.


FRUCHTER ROSEN & COMPANY, P.C.
Certified Public Accountants

New York, New York
October 22, 2010

COMMUNITY ROOTS CHARTER SCHOOL
(A Not-For-Profit Corporation)
STATEMENTS OF FINANCIAL POSITION
JUNE 30,

	<u>2010</u>	<u>2009</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,945,301	\$ 1,333,282
Grants and contracts receivable	40,237	36,390
Other receivables	2,875	-
Prepaid expenses	<u>50,908</u>	<u>22,294</u>
Total current assets	2,039,321	1,391,966
Property and equipment, net of accumulated depreciation and amortization of \$143,134 and \$82,459, respectively	124,765	128,841
Restricted cash	<u>71,327</u>	<u>70,844</u>
TOTAL ASSETS	<u><u>\$ 2,235,413</u></u>	<u><u>\$ 1,591,651</u></u>
 LIABILITIES AND UNRESTRICTED NET ASSETS		
Current liabilities:		
Accounts payable and accrued expenses	\$ 62,112	\$ 51,920
Accrued payroll and payroll taxes	281,148	246,615
Refundable advances	<u>60,504</u>	<u>1,616</u>
Total current liabilities	403,764	300,151
Unrestricted net assets	<u>1,831,649</u>	<u>1,291,500</u>
TOTAL LIABILITIES AND UNRESTRICTED NET ASSETS	<u><u>\$ 2,235,413</u></u>	<u><u>\$ 1,591,651</u></u>

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

COMMUNITY ROOTS CHARTER SCHOOL
(A Not-For-Profit Corporation)
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30,

	<u>2010</u>	<u>2009</u>
Revenue and support:		
State and local per pupil operating revenue	\$ 3,433,238	\$ 2,758,435
Federal grants	116,123	206,468
State and city grants	39,421	34,310
Contributions and grants	146,232	95,855
Donated services	-	15,978
Interest and other income	44,482	32,956
Special events, net of expenses of \$25,696 and \$25,415, respectively	<u>43,361</u>	<u>54,861</u>
Total revenue and support	<u>3,822,857</u>	<u>3,198,863</u>
Expenses:		
Program services		
Regular education	2,373,257	2,013,013
Special education	261,216	236,409
Supplemental education	<u>222,281</u>	<u>136,270</u>
Total program services	2,856,754	2,385,692
Supporting services		
Management and general	415,480	298,215
Fundraising	<u>10,474</u>	<u>5,302</u>
Total expenses	<u>3,282,708</u>	<u>2,689,209</u>
Changes in unrestricted net assets	540,149	509,654
Unrestricted net assets - beginning of year	<u>1,291,500</u>	<u>781,846</u>
Unrestricted net assets - end of year	<u><u>\$ 1,831,649</u></u>	<u><u>\$ 1,291,500</u></u>

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

COMMUNITY ROOTS CHARTER SCHOOL
(A Not-For-Profit Corporation)
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30,

	<u>2010</u>	<u>2009</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in unrestricted net assets	\$ 540,149	\$ 509,654
Adjustments to reconcile changes in unrestricted net assets to net cash provided by operating activities:		
Depreciation and amortization	60,675	45,301
Changes in certain assets and liabilities:		
(Increase) Decrease in grants and contracts receivable	(3,847)	209,647
(Increase) in other receivables	(2,875)	-
(Increase) in prepaid expenses	(28,614)	(11,533)
Increase (Decrease) in accounts payable and accrued expenses	10,192	(25,942)
(Decrease) Increase in accrued payroll and payroll taxes	34,533	80,873
Increase in refundable advances	<u>58,888</u>	<u>1,616</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	669,101	809,616
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(56,599)	(63,036)
(Increase) in restricted cash	<u>(483)</u>	<u>(45,530)</u>
NET CASH (USED IN) INVESTING ACTIVITIES	(57,082)	(108,566)
NET INCREASE IN CASH AND CASH EQUIVALENTS	612,019	701,050
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>1,333,282</u>	<u>632,232</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u><u>\$ 1,945,301</u></u>	<u><u>\$ 1,333,282</u></u>

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

COMMUNITY ROOTS CHARTER SCHOOL
(A Not-For-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

NOTE 1 - PRINCIPAL BUSINESS ACTIVITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization

Community Roots Charter School (the "School") is a New York State, not-for-profit educational corporation that was incorporated on December 9, 2005 to operate a Charter School pursuant to Article 56 of the Education Law of the State of New York. The School was granted a provisional charter on December 9, 2005 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 is a rigorous K-5 learning community where learning is embedded in meaningful real world context where children are deliberately taught to see the connection between school and the world. The School provided education to approximately 250 students in kindergarten through fourth grade in the 2009-2010 academic year.

The School shares space with a New York City public school beginning in September 2006. The School is not responsible for rent, utilities, custodial services, maintenance and school safety services other than security related to the School's programs that take place outside the district's school day.

Food and Transportation Services

The New York City Department of Education provides free lunches and transportation directly to some of the School's students. Such costs are not included in these financial statements. The School covers a portion of the cost of lunches for children not entitled to the free lunches.

Tax Status

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).

Basis of Presentation

The financial statement presentation follows the requirements of the Financial Accounting Standards Board ("FASB") in its Accounting Standards Codification ("ASC") No. 958-205 which provides guidance for the classification of net assets. The amounts for each of the three classes of net assets are based on the existence or absence of donor-imposed restrictions described as follows:

:

Unrestricted

Net assets of the School whose use has not been restricted by an outside donor or by law. They are available for any use in carrying out the operations of the School.

COMMUNITY ROOTS CHARTER SCHOOL
(A Not-For-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

NOTE 1 - PRINCIPAL BUSINESS ACTIVITY AND SUMMARY OF SIGNIFICANT
ACCOUNTING POLICIES (Continued)

Basis of Presentation (Continued)

Temporarily Restricted

Net assets of the School whose use has been limited by donor-imposed stipulations that either expire with the passage of time or can be fulfilled and removed by actions of the School. 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 and changes in net assets, as net assets released from restrictions

Permanently Restricted

Net assets of the School whose use has been permanently limited by donor-imposed restrictions. Such assets include contributions required to be invested in perpetuity, the income from which is available to support charitable purposes designated by the donors.

The School has no temporarily or permanently restricted net assets at June 30, 2010 and 2009.

Revenue and Support

Contributions are recognized when the donor makes a promise to give to the School that is, in substance, unconditional. Grants and other contributions of cash are reported as temporarily restricted support if they are received with donor stipulations. Restricted contributions and grants that are made to support the School's current year activities are recorded as unrestricted revenue. Contributions of assets other than cash are recorded at their estimated fair value.

Revenue from the state and local governments resulting from the School's charter status and based on the number of students enrolled is recorded when services are performed in accordance with the charter agreement. Federal and other state and local funds are recorded when expenditures are incurred and billable to the government agency.

Use of 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 revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Cash and Cash Equivalents

For the purpose of the statement of cash flows, the School considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

COMMUNITY ROOTS CHARTER SCHOOL
(A Not-For-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

NOTE 1 - PRINCIPAL BUSINESS ACTIVITY AND SUMMARY OF SIGNIFICANT
ACCOUNTING POLICIES (Continued)

Concentration of Credit Risk

Financial instruments which potentially subject the School to concentrations of credit risk are cash and cash equivalents. The School places its cash and cash equivalents on deposit in what it believes to be highly credited financial institutions. Cash balances may exceed the FDIC insured levels of \$250,000 per institution at various times during the year. The School believes that there is little risk in any losses and has not experienced any losses in such accounts.

Restricted Cash

Under the provisions of its charter, the School established an escrow account to pay for legal and audit expenses that would be associated with a dissolution should it occur.

Property and Equipment

Purchased property and equipment are recorded at cost. Maintenance and repairs are expensed as incurred. All property and equipment purchased with government funding, whereas the government agency retains legal title to the long lived asset is expensed as incurred. Depreciation and amortization is provided on the straight line method over the estimated useful lives as follows:

Equipment	3-5 years
Furniture and fixtures	7 years
Software	3 years

Refundable Advances

The School records grant revenue as a refundable advance until it is expended for the purpose of the grant, at which time it is recognized as revenue.

Reclassifications

Certain 2009 accounts have been reclassified to conform to the 2010 financial statement presentation. The reclassifications have no effect on 2009 total assets, liabilities, net assets and changes in net assets.

Comparative Financial Information

The accompanying statements of activities and functional expenses are presented with summarized comparative information. Such prior year information is not presented by net asset class in the statement of activities or by functional category in the schedule of functional expenses. Accordingly, such information should be read in conjunction with the School's 2009 financial statements from which the summarized information was derived.

COMMUNITY ROOTS CHARTER SCHOOL
(A Not-For-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

NOTE 1 - PRINCIPAL BUSINESS ACTIVITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recent Accounting Pronouncements

In June 2009, the FASB issued FASB ASC 105, Generally Accepted Accounting Principles ("GAAP"), which establishes the FASB Accounting Standards Codification as the sole source of authoritative generally accepted accounting principles. Pursuant to the provisions of FASB ASC 105, the School has updated references to GAAP in its financial statements issued for the year ending June 30, 2010. The adoption of FASB ASC 105 did not impact the School's financial position or results of operations.

The School adopted the provisions of ASC 740, Income Taxes, as of July 1, 2009. This standard clarifies the accounting for uncertainty in income taxes recognized in an organization's financial statements and prescribes a recognition threshold and measurement standard for the financial statement recognition and measurement of income tax position taken or expected to be taken in a tax return. The School has reviewed its tax positions for open tax years and has concluded that the adoption of this standard did not have an impact on the financial statements of the School.

NOTE 2 - GRANTS AND CONTRACTS RECEIVABLE

Grants and contracts receivable consist of federal entitlements and grants. The School expects to collect these receivables within one year.

NOTE 3 - PROPERTY AND EQUIPMENT

Property and equipment consist of the following at June 30,:

	<u>2010</u>	<u>2009</u>
Equipment	\$ 159,456	\$ 116,529
Furniture and fixtures	86,952	73,880
Software	<u>21,491</u>	<u>20,891</u>
	267,899	211,300
Less: Accumulated depreciation and amortization	<u>143,134</u>	<u>82,459</u>
	<u>\$ 124,765</u>	<u>\$ 128,841</u>

Depreciation and amortization expense was \$60,675 and \$45,301 for the years ended June 30, 2010 and 2009, respectively.

NOTE 4 - CONTINGENCY

Certain grants and contracts may be subject to audit by the funding sources. Such audits might result in disallowances of costs submitted for reimbursements. Management is of the opinion that such cost disallowances, if any, will not have a material effect on the accompanying financial statements. Accordingly, no amounts have been provided in the accompanying financial statements for such potential claims.

COMMUNITY ROOTS CHARTER SCHOOL
(A Not-For-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

NOTE 5 - REVENUE CONCENTRATION

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

NOTE 6 - FUNCTIONAL ALLOCATION OF EXPENSE

Directly identifiable expenses are charged to programs and supporting services. Expenses related to more than one function are charged to programs and supporting services on the basis of periodic time and expense studies. Management and general expense includes those expenses that are not directly identifiable with any other specific function, but provide for the overall support and direction of the School.

NOTE 7 - DONATED SERVICES

Donated services are recognized as contributions in accordance with FASB ASC 605, "Accounts for Contributions Received and Contributions Made," 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.

Individuals have provided legal services to the School at no charge. The value of these services meets the criteria for recognition in the financial statements and is recorded at fair value. For the years ended June 30, 2010 and 2009, the value of such donated services amounted to \$-0- and \$15,978, respectively. The value is allocated between program services, management and general expenses in the accompanying statements of activities.

NOTE 8 - RETIREMENT PLAN

The School maintains a pension plan qualified under Internal Revenue Code 403(b), for the benefit of its eligible employees. Under the plan, the School matched employee contributions up to 5% of annual compensation. Employee match for the years ended June 30, 2010 and 2009 amounted to \$24,263 and \$34,699, respectively.

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INDEPENDENT AUDITORS' REPORT
ON ADDITIONAL INFORMATION

TO THE BOARD OF TRUSTEES
COMMUNITY ROOTS CHARTER SCHOOL

Our report on our audits of the basic financial statements of Community Roots Charter School (a not-for-profit corporation) as of June 30, 2010 and 2009, appears on Page 1. We conducted our audits in accordance with auditing standards generally accepted in the United States of America for the purpose of forming an opinion on the basic financial statements taken as a whole. The 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 audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements as a whole.


FRUCHTER ROSEN & COMPANY, P.C.
Certified Public Accountants

New York, New York
October 22, 2010

COMMUNITY ROOTS CHARTER SCHOOL
(A Not-For-Profit Corporation)
SCHEDULE OF FUNCTIONAL EXPENSES
FOR THE YEARS ENDED JUNE 30,

	2010							
	Program Services				Management and			
	Regular Education	Special Education	Supplemental Education	Total	General	Fundraising	Total	2009
Salaries	\$ 1,642,008	\$ 144,828	\$ 78,098	\$ 1,864,934	\$ 267,641	\$ 3,919	\$ 2,136,494	\$ 1,781,101
Employee benefits and payroll taxes	354,969	31,308	16,883	403,160	57,856	848	461,864	327,303
Contracted service	-	-	16,525	16,525	1,313	5,707	23,545	2,580
Audit and accounting fees	-	-	-	-	18,088	-	18,088	18,000
Legal fees	-	-	-	-	-	-	-	15,978
Professional services	41,667	3,623	-	45,290	-	-	45,290	52,268
Technology consulting	15,486	1,366	737	17,589	2,562	-	20,151	12,237
Professional development	64,097	5,574	-	69,671	-	-	69,671	79,117
Marketing/Recruiting	-	-	-	-	7,302	-	7,302	720
Educational consulting	25,839	2,247	-	28,086	-	-	28,086	21,860
After school consulting	-	-	106,975	106,975	-	-	106,975	49,505
Special education services and supplies	-	52,260	-	52,260	-	-	52,260	59,333
Books	38,860	3,379	-	42,239	-	-	42,239	41,851
Classroom supplies	45,615	3,966	-	49,581	-	-	49,581	42,851
Curriculum supplies	35,537	3,090	-	38,627	-	-	38,627	22,342
Student testing and assessment	4,546	396	-	4,942	-	-	4,942	5,039
Field trips	24,459	2,127	-	26,586	-	-	26,586	14,422
Food service	10,109	879	-	10,988	-	-	10,988	6,040
Insurance	17,773	1,568	845	20,186	2,940	-	23,126	21,170
Office expense	-	-	-	-	30,925	-	30,925	14,625
Printing, postage, and copying	-	-	-	-	4,379	-	4,379	8,341
Dues and subscriptions	-	-	-	-	2,940	-	2,940	2,315
Telephone	-	-	-	-	4,722	-	4,722	1,633
Computer software	3,737	325	-	4,062	-	-	4,062	7,403
Non-capitalized furniture and fixtures	356	31	-	387	-	-	387	7,733
Non-capitalized equipment	1,567	136	-	1,703	-	-	1,703	19,310
Depreciation and amortization	46,632	4,113	2,218	52,963	7,712	-	60,675	45,301
Miscellaneous	-	-	-	-	7,100	-	7,100	8,831
Total	<u>\$ 2,373,257</u>	<u>\$ 261,216</u>	<u>\$ 222,281</u>	<u>\$ 2,856,754</u>	<u>\$ 415,480</u>	<u>\$ 10,474</u>	<u>\$ 3,282,708</u>	<u>\$ 2,689,209</u>

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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
COMMUNITY ROOTS CHARTER SCHOOL

We have audited the financial statements of Community Roots Charter School (the “School”) as of and for the year ended June 30, 2010, and have issued our report thereon dated October 22, 2010. 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.

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 do not express an opinion on the effectiveness of the School’s internal control over financial reporting.

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.

Our consideration of internal control over financial reporting 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 deficiencies, 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.

TO THE BOARD OF TRUSTEES OF
COMMUNITY ROOTS CHARTER SCHOOL

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 the management of the School in a separate letter dated October 22, 2010.

This report is intended solely for the information and use of management, Board of Trustees, federal, state and local awarding agencies, The Department of Education of the City of New York, The State Education Department of the State University of New York, and others within the School and is not intended to be and should not be used by anyone other than these specified parties.


FRUCHTER ROSEN & COMPANY, P.C.
Certified Public Accountants

New York, New York
October 22, 2010