

# **ROADS CHARTER SCHOOL I**

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FINANCIAL STATEMENTS

JUNE 30, 2017

(WITH SUMMARIZED COMPARATIVE INFORMATION FOR JUNE 30, 2016)

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## **INDEPENDENT AUDITOR'S REPORT**

To the Board of Trustees  
ROADS Charter School I

### **Report on the Financial Statements**

We have audited the accompanying financial statements of ROADS Charter School I (the "School"), which comprise the statement of financial position as of June 30, 2017, 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 I as of June 30, 2017, 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 I's 2016 financial statements and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 28, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016, 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 26, 2017, 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 26, 2017

**ROADS CHARTER SCHOOL I**  
STATEMENT OF FINANCIAL POSITION  
JUNE 30, 2017  
(WITH SUMMARIZED COMPARATIVE INFORMATION FOR JUNE 30, 2016)

<b>ASSETS</b>	<b>2017</b>	<b>2016</b>
Cash	\$ 440,175	\$ 241,651
Cash - restricted	75,061	75,024
Grants receivable	95,159	171,234
Due from related entities	-	285,073
Prepaid expenses and other assets	44	40,753
Property and equipment, net	-	35,742
	<b>\$ 610,439</b>	<b>\$ 849,477</b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES</b>		
Accounts payable and accrued expenses	\$ 42,873	\$ 277,219
Accrued salaries and other payroll related expenses	198,765	364,009
Due to related entities	5,303	34,308
Due to NYC Department of Education	185,346	1,265
	432,287	676,801
<b>NET ASSETS</b>		
Unrestricted	178,152	172,676
	<b>\$ 610,439</b>	<b>\$ 849,477</b>

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

**ROADS CHARTER SCHOOL I**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2017**  
**(WITH SUMMARIZED COMPARATIVE INFORMATION FOR THE YEAR ENDED JUNE 30, 2016)**

	<b>2017</b>	<b>2016</b>
OPERATING REVENUE		
State and local per pupil operating revenue	\$ 3,921,111	\$ 4,507,213
Government grants and contracts	<u>309,304</u>	<u>210,675</u>
	<u>4,230,415</u>	<u>4,717,888</u>
EXPENSES		
Program	3,883,649	4,126,031
Management and general	<u>441,841</u>	<u>592,321</u>
	<u>4,325,490</u>	<u>4,718,352</u>
DEFICIENCY FROM SCHOOL OPERATIONS	<u>(95,075)</u>	<u>(464)</u>
SUPPORT AND OTHER INCOME		
Forgiveness of due to related entities	100,045	-
Interest and other income	<u>506</u>	<u>665</u>
	<u>100,551</u>	<u>665</u>
CHANGE IN NET ASSETS	5,476	201
NET ASSETS - BEGINNING OF YEAR	<u>172,676</u>	<u>172,475</u>
NET ASSETS - END OF YEAR	<u><b>\$ 178,152</b></u>	<u><b>\$ 172,676</b></u>

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

**ROADS CHARTER SCHOOL I**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**FOR THE YEAR ENDED JUNE 30, 2017**  
(WITH SUMMARIZED COMPARATIVE INFORMATION FOR THE YEAR ENDED JUNE 30, 2016)

	<b>No. of Positions</b>	<b>Program Services</b>			<b>Supporting Services</b>	<b>2017</b>	<b>2016</b>
		<b>Regular Education</b>	<b>Special Education</b>	<b>Total</b>	<b>Management and General</b>		
Personnel service costs							
Administrative staff personnel	8	\$ 275,547	\$ 302,362	\$ 577,909	\$ 269,606	\$ 847,515	\$ 882,275
Instructional personnel	19	634,745	1,132,563	1,767,308	339	1,767,647	2,108,044
Total salaries and staff	27	910,292	1,434,925	2,345,217	269,945	2,615,162	2,990,319
Fringe benefits and payroll taxes		216,571	339,169	555,740	62,492	618,232	696,762
Retirement		17,050	26,877	43,927	5,056	48,983	34,542
Management company fee		209,400	187,817	397,217	4,050	401,267	450,721
Legal services		780	700	1,480	15	1,495	-
Accounting and audit services		-	-	-	37,582	37,582	37,508
Other purchases of professional and consulting services		113,542	101,777	215,319	448	215,767	81,275
Repairs and maintenance		4,095	3,673	7,768	79	7,847	3,502
Insurance		18,062	16,200	34,262	350	34,612	60,673
Utilities		9,166	8,221	17,387	175	17,562	10,294
Instructional supplies and materials		12,913	11,574	24,487	-	24,487	45,250
Equipment and furnishings		12,280	19,358	31,638	3,642	35,280	14,081
Staff development		3,047	2,731	5,778	4	5,782	24,086
Marketing and recruitment		292	262	554	5	559	9,192
Technology		18,736	16,804	35,540	331	35,871	48,757
Food service		3,376	3,087	6,463	69	6,532	3,175
Student services		39,220	35,151	74,371	-	74,371	136,011
Office expense		12,319	11,049	23,368	3,321	26,689	35,582
Depreciation and amortization		18,652	16,729	35,381	361	35,742	31,394
Bad debt expense		-	-	-	53,877	53,877	-
Other		14,608	13,144	27,752	39	27,791	5,228
		<b>\$ 1,634,401</b>	<b>\$ 2,249,248</b>	<b>\$ 3,883,649</b>	<b>\$ 441,841</b>	<b>\$ 4,325,490</b>	<b>\$ 4,718,352</b>

**ROADS CHARTER SCHOOL I**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED JUNE 30, 2017**  
(WITH SUMMARIZED COMPARATIVE INFORMATION FOR THE YEAR ENDED JUNE 30, 2016)

	<b>2017</b>	<b>2016</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from operating revenue	\$ 4,436,657	\$ 4,411,006
Other cash received	100,551	665
Cash paid to employees and suppliers	<u>(4,338,684)</u>	<u>(4,333,215)</u>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>198,524</b>	<b>78,456</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of property and equipment	<u>-</u>	<u>(41,770)</u>
<b>NET INCREASE IN CASH</b>	<b>198,524</b>	<b>36,686</b>
<b>CASH - BEGINNING OF YEAR</b>	<u><b>241,651</b></u>	<u><b>204,965</b></u>
<b>CASH - END OF YEAR</b>	<u><b>\$ 440,175</b></u>	<u><b>\$ 241,651</b></u>
<b>Reconciliation of change in net assets to net cash provided by operating activities:</b>		
Change in net assets	\$ 5,476	\$ 201
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	35,742	31,394
Bad debt expense	53,877	-
Forgiveness of due to related entities	(100,045)	-
Changes in operating assets and liabilities:		
Cash - restricted	(37)	(75,024)
Grants receivable	22,198	(43,448)
Due from related parties	285,073	11,011
Prepaid expenses and other assets	40,709	(20,745)
Accounts payable and accrued expenses	(234,346)	234,671
Accrued salaries and other payroll related expenses	(165,244)	94,498
Due to related parties	71,040	34,308
Due to NYC Department of Education	<u>184,081</u>	<u>(188,410)</u>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u><b>\$ 198,524</b></u>	<u><b>\$ 78,456</b></u>

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



# ROADS CHARTER SCHOOL I

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017

### 1. NATURE OF THE ORGANIZATION

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ROADS Charter School I (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 charter was renewed and restructured for an additional five years, expiring in July 2022.

The School opened its doors in the fall of 2012 in Brooklyn 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

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

These classes are defined as follows:

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

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

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

## **ROADS CHARTER SCHOOL I**

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### **NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017**

## **2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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### **Cash - Restricted**

At June 30, 2017, a restricted fund of \$75,061 is held aside to cover debts in the event of the School's dissolution as required by The State University of New York.

### **Grants Receivable**

Grants receivable represents amounts due from federal and state grants. Grants receivable are expected to be collected within one year, are recorded at net realizable value, and amount to \$95,159 and \$171,234 at June 30, 2017 and 2016, respectively. The School has determined that no allowance for uncollectible accounts is necessary at June 30, 2017 and 2016. 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. The School had bad debt expense of \$53,877 for the year ended June 30, 2017.

### **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.

### **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 goods and services received during the years ended June 30, 2017 and 2016.

### **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.

### **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.

## **ROADS CHARTER SCHOOL I**

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### **NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017**

## **2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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### **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, 2017 and 2016.

### **Advertising**

The School expenses advertising costs as incurred. The School incurred \$559 of advertising for the year ended June 30, 2017, which is included in the accompanying statement of functional expenses under marketing and recruiting.

### **Functional Allocation of Expenses**

Expenses that can be directly identified with the program or supporting service to which they relate are charged accordingly. Other expenses by function have been allocated among program and supporting service classifications 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.

### **Comparative Financial Information**

The June 30, 2017 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, 2016 are presented. As a result, the June 30, 2016 comparative information does not include sufficient detail to constitute a presentation in conformity with U.S. GAAP. Accordingly, such June 30, 2016 information should be read in conjunction with the School's financial statements as of and for the year ended June 30, 2016, 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.

The School files informational returns in the Federal and New York State jurisdictions. With few exceptions, the School is no longer subject to Federal, state, or local income tax examinations for fiscal years before 2014.

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.

## ROADS CHARTER SCHOOL I

### NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Reclassifications

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.

### Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued an accounting standards 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 August 2016, the FASB issued an accounting standards 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.

In November 2016, the FASB issued an accounting standards update which amends cash flow statement presentation of restricted cash. The update requires amounts generally described as restricted cash and restricted cash equivalents be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The update is effective retrospectively for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019, with early adoption permitted. The School is currently evaluating the effect the update will have on its financial statements.

## 3. GRANTS RECEIVABLE

Grants receivable 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,:

	2017	2016
Charter School Planning Grant	\$ -	\$ 2,130
Title I	-	58,724
Title II	-	6,400
IDEA	-	52,350
NYS Additional Funding	92,824	51,630
Other	2,335	-
	<u>\$ 95,159</u>	<u>\$ 171,234</u>

## ROADS CHARTER SCHOOL I

### NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017

#### 4. PROPERTY AND EQUIPMENT

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

	2017	2016
Furniture and fixtures	\$ -	\$ 32,037
Equipment	-	172,283
Software	-	27,340
	-	231,660
Less: accumulated depreciation and amortization	-	(195,918)
	<u>\$ -</u>	<u>\$ 35,742</u>

Property and equipment and the related accumulated depreciation and amortization was written off as of June 30, 2017. Depreciation and amortization expense was \$35,742 and \$31,394 for the years ended June 30, 2017 and 2016, 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. This Agreement 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 included general management services. For the years ended June 30, 2017 and 2016, the School incurred management fees of \$401,267 and \$450,721, respectively. Effective July 2017, the School is no longer an affiliate of Roads Inc. and is under the management of New Visions for Public Schools.

There was no balance due to or from Roads Inc. at June 30, 2017. The balance was written off and recognized as forgiveness of due to related entities in the accompanying financial statements. The balance due from Roads Inc. amounted to \$281,998 at June 30, 2016. The balance due to Roads Inc. amounted to \$34,308 for the year ended June 30, 2016.

For operational efficiency and purchasing power, the School also shares expenses with Roads Charter School II ("Roads II"), which is related by common management. At June 30, 2017, the balance due to Roads II was \$5,303. At June 30, 2016, the balance due from Roads II was \$3,075.

#### 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 1495 Herkimer Street, Brooklyn, New York, and is not responsible for rent, utilities, custodial services, maintenance, or school safety. Approximately 15,000 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.

## **ROADS CHARTER SCHOOL I**

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### **NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017**

#### **7. PENSION PLAN**

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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, 2017 and 2016, pension expense for the School was \$48,983 and \$34,542, respectively, which is included in retirement in the accompanying statement of functional expenses.

#### **8. RISK MANAGEMENT**

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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**

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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 limits of \$250,000.

The School received approximately 91% and 96% of its total revenue from per pupil funding from the NYCDOE for the years ended June 30, 2017 and 2016, respectively.

One major grantor accounted for 98% and three major grantors accounted for 99% of grants receivable at June 30, 2017 and 2016, respectively.

Three vendors accounted for 84% and two vendors accounted for 59% of accounts payable at June 30, 2017 and 2016, respectively.

#### **10. SUBSEQUENT EVENT**

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In July 2017, the School began doing business as New Visions AIM Charter High School I. However, the School's legal name or filing has not changed.

The School has evaluated events through October 26, 2017, which is the date the financial statements were available to be issued.



**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 I

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 I (the "School"), which comprise the statement of financial position as of June 30, 2017, 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 26, 2017.

**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 an instance of noncompliance that is required to be reported under *Government Auditing Standards* and is described in the accompanying schedule of findings and responses as finding 2017-01.

We noted certain matters that we reported to management of the School in a separate letter dated October 26, 2017.

### **ROADS Charter School I's Response to Finding**

The School's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. The School's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **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 26, 2017



**ROADS CHARTER SCHOOL I**

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SCHEDULE OF FINDINGS AND RESPONSES  
JUNE 30, 2017

**SECTION I – SUMMARY OF AUDITOR’S RESULTS**

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***Financial Statements***

Type of auditor's report issued:

Unqualified

Internal control over financial reporting:

Material weakness (es) identified?

\_\_\_ yes √ no

Significant deficiency (ies) identified that are not  
considered to be material weaknesses?

\_\_\_ yes √ no

Noncompliance material to financial statements noted?

√ yes \_\_\_ no

## ROADS CHARTER SCHOOL I

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### SCHEDULE OF FINDINGS AND RESPONSES JUNE 30, 2017

#### SECTION II – FINANCIAL STATEMENT FINDING

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##### **Finding: 2017-01**

Criteria: The New York State Education Department (“NYSED”) requires the School to obtain and maintain proof of residency for all students attending the School.

Condition and Context: The School did not meet the requirement of maintaining proof of residency for 2 of the 25 student files tested.

Cause: There School had inadequate management oversight of the Roads NYSED requirements.

Effect: Since the School receives per pupil funding based on the number of students, the School could be in a position to lose funding for any ineligible students if their student files are not complete and the School cannot prove that the students billed for exist and live in the appropriate district. NYSED requires that all student files be updated and maintained by the School.

Recommendation: We recommend that the School comply with the NYSED requirements for student eligibility. The School should review and comply with their policies and procedures regarding acceptance of students within the School. The School should monitor and maintain files, whether paper or electronic, with all required documents. These files should be reviewed prior to acceptance of the student into the School.

## **ROADS CHARTER SCHOOL I**

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### **SCHEDULE OF FINDINGS AND RESPONSES JUNE 30, 2017**

#### **VIEWS OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTION:**

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##### **Finding: 2017-01**

Management of the School is reviewing the current policies and procedures manual in order to ensure close monitoring of their system and file keeping of students who are accepted into the School. If the School cannot determine with enough evidence that the student is an eligible student, they should not be accepted. These controls in place should prevent that from occurring. The School agrees and understands the finding regarding the noncompliance with student file requirements during fiscal year 2017.

# **ROADS Charter School I**

*Communication With Those Charged With Governance*

*OCTOBER 26, 2017*



October 26, 2017

To the Audit Committee  
ROADS Charter School I

We have audited the financial statements of ROADS Charter School I (the "School") for the year ended June 30, 2017 and are prepared to issue our report thereon dated October 26, 2017. 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 dated May 11, 2017, 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 I. 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 2017.

### **C. Auditor Independence:**

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

### **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 I 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, 2017, ROADS Charter School I recorded grants receivable of \$95,159. 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 affecting the financial statements was:

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 3 audit adjustments, all prepared by client, that did not affect net assets. In the prior year, there were 8 audit adjustments (2 reclassification adjustment and 6 prepared by client) that decreased net assets by approximately \$2,000.

**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 26, 2017.

**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**

**Compliance Testing:**

We noted that the School did not meet the requirement of maintaining proof of residency for 2 of the 25 student files tested. Since the School receives per pupil funding based on the number of students, the School could be in a position to lose funding for any ineligible students if their student files are not complete and the School cannot prove that the students billed for exist and live in the appropriate district. NYSED requires that all student files be updated and maintained by the School. We recommend that the School comply with the NYSED requirements for student eligibility. The School should review and comply with their policies and procedures regarding acceptance of students within the School. The School should monitor and maintain files, whether paper or electronic, with all required documents. These files should be reviewed prior to acceptance of the student into the School.

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 I 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 CPA's, LLC