

ROADS CHARTER SCHOOL II

FINANCIAL STATEMENTS

JUNE 30, 2014

(WITH SUMMARIZED COMPARATIVE INFORMATION FOR THE PERIOD FROM
APRIL 5, 2011 (DATE OF INCEPTION) TO JUNE 30, 2013)

ROADS CHARTER SCHOOL II

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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, 2014, 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, 2014, 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 2013 financial statements and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 31, 2013. In our opinion, the summarized comparative information presented herein as of June 30, 2013, and for the period from April 5, 2011 (date of inception) to June 30, 2013, 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 30, 2014, 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 30, 2014

ROADS CHARTER SCHOOL II
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2014
(WITH SUMMARIZED COMPARATIVE INFORMATION FOR JUNE 30, 2013)

ASSETS	2014	2013
Cash	\$ 614,840	\$ 516,300
Grants receivable	80,407	63,270
Due from related parties	-	12,958
Prepaid expenses and other assets	106,326	43,447
Property and equipment, net	150,129	230,766
	\$ 951,702	\$ 866,741
<u>LIABILITIES AND NET ASSETS</u>		
LIABILITIES		
Accounts payable and accrued expenses	\$ 77,985	\$ 171,531
Accrued salaries and other payroll related expenses	211,266	78,702
Due to NYC Department of Education	40,649	63,711
Due to related parties	2,674	-
	332,574	313,944
NET ASSETS		
Unrestricted	619,128	552,797
	\$ 951,702	\$ 866,741

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

ROADS CHARTER SCHOOL II
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2014
(WITH SUMMARIZED COMPARATIVE INFORMATION FOR THE PERIOD FROM
APRIL 5, 2011 (DATE OF INCEPTION) TO JUNE 30, 2013)

	2014	2013
OPERATING REVENUE		
State and local per pupil operating revenue	\$ 3,804,066	\$ 2,678,898
Government grants and contracts	<u>189,475</u>	<u>896,326</u>
	<u>3,993,541</u>	<u>3,575,224</u>
EXPENSES		
Program	3,294,849	2,251,499
Management	<u>831,523</u>	<u>817,192</u>
	<u>4,126,372</u>	<u>3,068,691</u>
(DEFICIENCY) SURPLUS FROM SCHOOL OPERATIONS	<u>(132,831)</u>	<u>506,533</u>
SUPPORT AND OTHER INCOME		
In-kind program services	197,523	18,934
Gifts in-kind	-	1,331
Contributions and other grants	54	-
Interest and other income	<u>1,585</u>	<u>25,999</u>
	<u>199,162</u>	<u>46,264</u>
CHANGE IN NET ASSETS	66,331	552,797
NET ASSETS - BEGINNING OF PERIOD	<u>552,797</u>	<u>-</u>
NET ASSETS - END OF PERIOD	<u>\$ 619,128</u>	<u>\$ 552,797</u>

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, 2014
(WITH SUMMARIZED COMPARATIVE INFORMATION FOR THE PERIOD FROM
APRIL 5, 2011 (DATE OF INCEPTION) TO JUNE 30, 2013)

	<u>Program</u>	<u>Management</u>	<u>2014</u>	<u>2013</u>
FUNCTIONAL EXPENSES				
Salaries	\$ 2,130,189	\$ 313,264	\$ 2,443,453	\$ 1,702,431
Payroll taxes and employee benefits	458,090	67,620	525,710	368,656
Instructional materials/classroom supplies	113,301	-	113,301	83,658
Advertising and recruitment	2,794	258	3,052	56,143
Professional fees	35,819	62,983	98,802	211,198
Professional development	148,709	-	148,709	256,924
Facility expense	-	-	-	7,473
Insurance	28,803	4,236	33,039	20,570
Student transportation	18,510	-	18,510	9,322
Student services	94,424	-	94,424	110,657
Office expenses	94,457	13,891	108,348	80,512
Equipment expense	44,572	124,216	168,788	46,241
Other expenses	-	580	580	2,889
Classroom furniture - non-capitalizable	47,369	-	47,369	14,314
Depreciation	65,440	25,275	90,715	73,388
In-kind services	-	216,457	216,457	-
Theft of property and equipment	12,372	2,743	15,115	24,315
	<u>\$ 3,294,849</u>	<u>\$ 831,523</u>	<u>\$ 4,126,372</u>	<u>\$ 3,068,691</u>

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, 2014
(WITH SUMMARIZED COMPARATIVE INFORMATION FOR THE PERIOD FROM
APRIL 5, 2011 (DATE OF INCEPTION) TO JUNE 30, 2013)

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from operating revenue	\$ 3,956,016	\$ 3,575,665
Other cash received	199,162	46,264
Cash paid to employees and suppliers	<u>(4,031,445)</u>	<u>(2,777,160)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>123,733</u>	<u>844,769</u>
CASH FLOW FROM INVESTING ACTIVITIES		
Purchase of property and equipment	<u>(25,193)</u>	<u>(328,469)</u>
NET CASH USED IN INVESTING ACTIVITIES	<u>(25,193)</u>	<u>(328,469)</u>
NET INCREASE IN CASH	98,540	516,300
CASH - BEGINNING OF PERIOD	<u>516,300</u>	<u>-</u>
CASH - END OF PERIOD	<u>\$ 614,840</u>	<u>\$ 516,300</u>

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

Change in net assets	\$ 66,331	\$ 552,797
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	90,715	73,388
Theft of property and equipment	15,115	24,315
Changes in operating assets and liabilities:		
Grants receivable	(17,137)	(63,270)
Due from related parties	12,958	(12,958)
Prepaid expenses and other assets	(62,879)	(43,447)
Accounts payable and accrued expenses	(93,546)	171,531
Accrued salaries and other payroll related expenses	132,564	78,702
Due to NYC Department of Education	(23,062)	63,711
Due to related parties	<u>2,674</u>	<u>-</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 123,733</u>	<u>\$ 844,769</u>

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

ROADS CHARTER SCHOOL II

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2014

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 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 operated classes for 280 students and 192 students in the year ended June 30, 2014 and the period ended June 30, 2013, respectively.

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.

ROADS CHARTER SCHOOL II

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2014

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 \$80,407 and \$63,270 at June 30, 2014 and 2013, respectively. The School has determined that no allowance for uncollectible accounts is necessary at June 30, 2014 and 2013. 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.

Revenue Recognition

Revenue from the 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. Donated services received are estimated at \$197,523 and \$18,934 for the year ended June 30, 2014 and the period ended June 30, 2013, respectively, and are reflected as income in the respective periods. The School received the benefit of such services in 2014 and recognized the entire expense in that year.

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 II

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2014

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Advertising and Recruitment

The School expenses advertising and recruitment costs as incurred. The School incurred \$3,052 and \$56,143 of advertising and recruitment costs for the year ended June 30, 2014 and the period ended June 30, 2013, respectively, which is included in the accompanying statement of functional expenses under advertising and recruitment.

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 30, 2014, which is the date the financial statements were available to be issued.

Comparative Financial Information

The June 30, 2014 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, 2013 are presented. As a result, the June 30, 2013 comparative information does not include sufficient detail to constitute a presentation in conformity with U.S. GAAP. Accordingly, such June 30, 2013 information should be read in conjunction with the School's financial statements for the period ended June 30, 2013, 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 jurisdiction. The School is subject to income tax examinations by the Internal Revenue Service for all tax years.

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 tax as other expense.

ROADS CHARTER SCHOOL II

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2014

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recent Accounting Pronouncement

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, 2017 and in interim periods in annual periods beginning after December 15, 2018. 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.

Reclassification

Certain amounts in the prior period financial statements have been reclassified for comparative purposes to conform to the presentation in the current year financial statements. The prior period statement of cash flows has been reclassified from the indirect method to the direct method in the current year financial statements. These reclassifications had no effect on previously reported change in net assets.

3. GRANTS RECEIVABLE

Grants receivable consists 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:

	<u>2014</u>	<u>2013</u>
Charter School Planning Grant	\$ 8,000	\$ 50,000
Title I	65,313	12,850
Title II	6,992	-
Other	102	420
	<u>\$ 80,407</u>	<u>\$ 63,270</u>

4. PROPERTY AND EQUIPMENT

Property and equipment consist of the following at June 30:

	<u>2014</u>	<u>2013</u>	<u>Estimated Useful Lives</u>
Furniture and fixtures	\$ 111,657	\$ 127,367	5 years
Equipment	135,740	146,777	3 years
Software	46,101	25,106	3 years
	<u>293,498</u>	<u>299,250</u>	
Less: accumulated depreciation and amortization	<u>(143,369)</u>	<u>(68,484)</u>	
	<u>\$ 150,129</u>	<u>\$ 230,766</u>	

ROADS CHARTER SCHOOL II

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2014

4. PROPERTY AND EQUIPMENT (CONTINUED)

Depreciation and amortization expense for the year ended June 30, 2014 and the period ended June 30, 2013 was \$90,715 and \$73,388, respectively. For the year ended June 30, 2014, equipment with a cost basis of \$30,945 and accumulated depreciation of \$15,830 was stolen, resulting in a net loss of \$15,115. For the period ended June 30, 2013, equipment with a cost basis of \$29,219 and accumulated depreciation of \$4,904 was stolen, resulting in a net loss of \$24,315.

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 shall pay a service fee equivalent to 5% of all public revenues received by the School during the year. Services provided included general management services. For the year ended June 30, 2014, Roads Inc. waived the service fee and the School accounted for such services as donated services and recognized \$197,523 as both income and expense in the accompanying financial statements.

At June 30, 2014, the balance due to Roads Inc. amounted to \$2,641. At June 30, 2013, the balance due from Roads Inc. amounted to \$12,958. These amounts are comprised of expenses paid by Roads Inc. on behalf of the School, and vice versa.

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, 2014 and 2013, the balance due to Roads I from the School amounted to \$33 and \$0, 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, and 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 year ended June 30, 2014 and the period ended June 30, 2013, the School incurred overtime permit fees of \$13,946 and \$11,280, respectively.

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 service 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 year ended June 30, 2014 and the period ended June 30, 2013, pension expense for the School was \$41,539 and \$22,411, respectively, which is included in payroll taxes and employee benefits in the accompanying statement of functional expenses.

ROADS CHARTER SCHOOL II

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2014

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 ("FDIC") insured limit of \$250,000.

The School received approximately 91% and 75% of its total revenue from per pupil funding from the NYCDOE for the year ended June 30, 2014 and the period ended June 30, 2013, respectively.

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, 2014, 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 30, 2014.

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. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and responses, that we consider to be a significant deficiency: Item 2014-01.

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 30, 2014.

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 30, 2014

ROADS CHARTER SCHOOL II

SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2014

Section I – Summary of Auditor’s results

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 ___ none noted

Noncompliance material to financial statements noted?

___ yes ✓ no

ROADS CHARTER SCHOOL II

SCHEDULE OF FINDINGS AND RESPONSES JUNE 30, 2014

Section II - Financial Statement Finding

- **Finding: 2014-01**

Criteria: Management is responsible to safeguard property and equipment.

Condition: Laptops and related equipment used by the students with a carrying value of \$15,115 and \$24,315 for the year ended June 30, 2014 and the period ended June 30, 2013 was stolen.

Effect: The School has incurred a loss of equipment with a carrying value of \$15,115 and \$24,315 for the year ended June 30, 2014 and the period ended June 30, 2013, respectively.

Cause: Laptops were not properly secured.

Recommendation: We recommend that the School tighten their security to safeguard property and equipment against further theft.

ROADS CHARTER SCHOOL II

SCHEDULE OF FINDINGS AND RESPONSES JUNE 30, 2014

Views of responsible officials and planned corrective action:

Finding: 2014-01: Laptops and related equipment used by the students with a carrying value of \$15,115 and \$24,315 for the year ended June 30, 2014 and the period ended June 30, 2013 was stolen.

Planned corrective action: The School has implemented the following changes:

- 1) More frequent inventories of laptops by the School's operations team.
- 2) Reinforcement of policies about the usage and securing of laptops, as well as reporting requirements to staff.
- 3) Replacement of stolen laptops with desktop computers for classrooms.
- 4) All new laptops have installed tracking software with a theft-replacement policy.
- 5) All staff used laptops are secured to desks with locks.