

ROADS CHARTER SCHOOL II

FINANCIAL STATEMENTS

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, 2013, and the related statements of activities, functional expenses, and cash flows for the period from April 5, 2011 (date of inception) through June 30, 2013, 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, 2013, and its change in net assets and its cash flows for the period from April 5, 2011 (date of inception) to June 30, 2013 in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2013, on our consideration of ROADS Charter School II'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 ROADS Charter School II's internal control over financial reporting and compliance.

MBAF CPAs, LLC

New York, NY
October 31, 2013

ROADS CHARTER SCHOOL II
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2013

ASSETS

Cash	\$ 516,300
Grants receivable	63,270
Due from related parties	12,958
Prepaid expenses and other assets	43,447
Property and equipment, net	<u>230,766</u>
	<u>\$ 866,741</u>

LIABILITIES AND NET ASSETS

LIABILITIES

Accounts payable and accrued expenses	\$ 171,531
Accrued salaries and other payroll related expenses	78,702
Due to NYC Department of Education	<u>63,711</u>
	<u>313,944</u>

NET ASSETS

Unrestricted	<u>552,797</u>
	<u>\$ 866,741</u>

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

ROADS CHARTER SCHOOL II
STATEMENT OF ACTIVITIES
PERIOD FROM APRIL 5, 2011 (DATE OF INCEPTION) TO JUNE 30, 2013

	Total
<hr/>	
OPERATING REVENUE	
State and local per pupil operating revenue	\$ 2,678,898
Government grants and contracts	896,326
	<hr/> 3,575,224
EXPENSES	
Program	2,251,499
Management	817,192
	<hr/> 3,068,691
SURPLUS FROM SCHOOL OPERATIONS	<hr/> 506,533
SUPPORT AND OTHER INCOME	
In-kind program services	18,934
Gifts in kind	1,331
Interest and other income	25,999
	<hr/> 46,264
CHANGE IN NET ASSETS	552,797
NET ASSETS - BEGINNING OF PERIOD	<hr/> -
NET ASSETS - END OF PERIOD	<hr/> \$ 552,797

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

ROADS CHARTER SCHOOL II
STATEMENT OF FUNCTIONAL EXPENSES
PERIOD FROM APRIL 5, 2011 (DATE OF INCEPTION) TO JUNE 30, 2013

	<u>Program</u>	<u>Management</u>	<u>Total</u>
FUNCTIONAL EXPENSES			
Salaries	\$ 1,216,844	\$ 485,007	\$ 1,701,851
Payroll taxes and employee benefits	264,304	104,262	368,566
Classroom supplies	34,735	-	34,735
Instructional materials	48,924	-	48,924
Instructional contract services	256,924	-	256,924
Advertising and recruiting	48,461	7,682	56,143
Professional fees	71,803	138,722	210,525
Facility expense	4,937	13,256	18,193
Insurance	14,691	5,879	20,570
Student services	119,978	-	119,978
Office expenses	37,998	18,167	56,165
Telephone and internet	16,500	6,604	23,104
Furniture and fixtures - non-capitalizable	30,950	18,885	49,835
Postage and delivery	3,910	1,565	5,475
Depreciation	56,225	17,163	73,388
Theft of property and equipment	24,315	-	24,315
	<u>\$ 2,251,499</u>	<u>\$ 817,192</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
PERIOD FROM APRIL 5, 2011 (DATE OF INCEPTION) TO JUNE 30, 2013

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	\$ 552,797
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	73,388
Theft of property and equipment	24,315
Changes in operating assets and liabilities:	
Grants receivable	(63,270)
Due from related parties	(12,958)
Prepaid expenses and other assets	(43,447)
Accounts payable and accrued expenses	171,531
Accrued salaries and other payroll related expenses	78,702
Due to NYC Department of Education	63,711
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>844,769</u>
CASH FLOW FROM INVESTING ACTIVITIES	
Purchase of property and equipment	<u>(328,469)</u>
NET CASH USED IN INVESTING ACTIVITIES	<u>(328,469)</u>
NET INCREASE IN CASH	516,300
CASH - BEGINNING OF PERIOD	<u>-</u>
CASH - END OF PERIOD	<u>\$ 516,300</u>

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

ROADS CHARTER SCHOOL II

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2013

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 upon expiration 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.

In fiscal year 2013, the School operated classes for students in the ninth grade. The School shares space with a New York City public school and is not responsible for rent, utilities, custodial services, maintenance, or school safety. Approximately 10,700 feet of square footage is allocated to the School.

The School's primary sources of income are 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, 2013

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Grants Receivable

Grants receivable represents unconditional promises to give by donors. Grants receivable are expected to be collected within one year, are recorded at net realizable value, and amount to \$63,270 at June 30, 2013. The School has determined that no allowance for uncollectible accounts is necessary at June 30, 2013. Such estimate is based on management's assessments of the creditworthiness of its donors, the aged basis of its receivables, as well as current economic conditions.

Revenue Recognition

Revenue from the state and local government resulting from the School's charter status 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 NYC Department of Education from state and local government grants in the accompanying statement of financial position.

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 goods received are estimated at \$1,331 as of June 30, 2013.

Property and Equipment

Purchased property and equipment are recorded at cost. Property and equipment acquired with certain government funding are recorded as expenses pursuant to the terms of the contract in which ownership of such property and equipment is retained by the funding source. Maintenance and repairs are expensed as they occur. Depreciation is provided on the straight line method over the estimated useful lives.

Impairments

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 period ended June 30, 2013.

Advertising

The School expenses advertising costs as incurred. The School incurred \$47,403 of advertising costs for the period ended June 30, 2013, which is included in the accompanying statement of functional expenses under advertising and recruiting.

ROADS CHARTER SCHOOL II

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2013

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 31, 2013, which is the date the financials statements were available to be issued.

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, accounting in interim periods, disclosure, and transition.

The School files informational returns in the United States 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.

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, 2013:

Charter School Planning Grant	\$ 50,000
Title IA	12,850
Other	420
	<hr/>
	\$ 63,270

ROADS CHARTER SCHOOL II

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2013

4. PROPERTY AND EQUIPMENT

Property and equipment consist of the following at June 30:

	<u>2013</u>	<u>Estimated Useful Lives</u>
Furniture and fixtures	\$ 120,264	5 years
Equipment	153,880	3 years
Software	<u>25,106</u>	3 years
	299,250	
Less: accumulated depreciation	<u>(68,484)</u>	
	<u>\$ 230,766</u>	

Depreciation expense for the period ended June 30, 2013 was \$73,388. 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. As of June 30, 2013, there was no signed agreement between the School and Roads Inc. In addition, Roads Inc. was not charging management fees to the School.

The balance due from Roads Inc. to the School at June 30, 2013 amounted to \$12,958. This amount is comprised of Roads Inc. expenses paid by the School on behalf of Roads Inc. The entire amount due from Roads Inc. was received subsequent to June 30, 2013.

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, 2013, there was no balance due to or from Roads I.

6. AGREEMENT FOR SCHOOL FACILITY

The School has entered into a verbal agreement ("the Agreement") with the NYCDOE for dedicated and shared space at a New York City public school located at 1010 Rev. James A Polite Ave, Bronx, New York. The 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 period ended June 30, 2013, the School incurred overtime permit fees of \$11,280, which is included in the accompanying statement of functional expenses.

ROADS CHARTER SCHOOL II

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2013

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

8. RISK MANAGEMENT

The School is exposed to various risks of loss related to torts; thefts of, damage to, and destruction of assets; injuries to employees; and natural disasters. The School maintains commercial insurance to help protect itself from such risks.

The School entered into contractual relationships with certain governmental funding sources. The governmental agencies may request return of funds as a result of noncompliance by the School, as well as additional funds for the use of facilities. The accompanying financial statements make no provision for the possible disallowance or refund.

9. CONCENTRATIONS

Financial instruments that potentially subject the School to a concentration of credit risk include cash accounts at a major financial institution that, at times, exceeded the Federal Deposit Insurance Corporation ("FDIC") insured limit of \$250,000.

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

The School's payables consist of two vendors accounting for approximately 76% of the School's accounts payable at June 30, 2013.

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 the financial statements of ROADS Charter School II (the "School") as of June 30, 2013 and for the period from April 5, 2011 (date of inception) to June 30, 2013, and have issued our report thereon dated October 31, 2013. 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 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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the School in a separate letter dated October 31, 2013.

This report is intended solely for the information and use of the audit committee, Board of Trustees, management, the New York State Education Department and the Board of Regents of the University of the State of New York and is not intended to be and should not be used by anyone other than these specified parties.

MBAF CPAs, LLC

New York, NY
October 31, 2013