

Community Roots Charter School

Financial Statements

June 30, 2018 and 2017



Independent Auditors' Report

Board of Trustees Community Roots Charter School

We have audited the accompanying financial statements of Community Roots Charter School (the "School"), which comprise the statements of financial position as of June 30, 2018 and 2017, and the related statements of activities, functional expenses, and cash flows for the years 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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 auditors' 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 entity'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 entity'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 the School as of June 30, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the School's 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated September 5, 2017. In our opinion, the summarized comparative statement of functional expenses presented herein for the year ended June 30, 2017 is consistent, in all material respects, with the audited financial statements from which it was derived.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 10, 2018, 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 solely 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 effectiveness of the School's 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.

PKF O'Connor Davies, LLP

Harrison, New York
September 10, 2018

Community Roots Charter School

Statements of Financial Position

	June 30,	
	<u>2018</u>	<u>2017</u>
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 527,371	\$ 656,112
Grants and contracts receivable	233,409	308,301
Prepaid expenses and other current assets	<u>301,444</u>	<u>221,443</u>
Total Current Assets	1,062,224	1,185,856
Property and equipment, net	151,519	216,434
Cash and cash equivalents, reserve	1,503,654	1,502,456
Restricted cash	<u>72,862</u>	<u>72,716</u>
	<u>\$ 2,790,259</u>	<u>\$ 2,977,462</u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable and accrued expenses	\$ 96,639	\$ 115,029
Accrued payroll and payroll taxes	754,869	781,851
Refundable advances and other deferred revenue	<u>47,204</u>	<u>1,172</u>
Total Liabilities	<u>898,712</u>	<u>898,052</u>
Net Assets, Unrestricted		
Undesignated	387,893	576,954
Board designated	<u>1,503,654</u>	<u>1,502,456</u>
Total Net Assets, Unrestricted	<u>1,891,547</u>	<u>2,079,410</u>
	<u>\$ 2,790,259</u>	<u>\$ 2,977,462</u>

See notes to financial statements

Community Roots Charter School

Statements of Activities

	Year Ended June 30,	
	2018	2017
REVENUE AND SUPPORT		
State and local per pupil operating revenue	\$ 8,616,734	\$ 8,549,286
Federal grants	161,617	164,461
State and city grants	26,999	35,025
Contributions and grants	203,202	264,380
Interest and other revenue	43,049	5,574
Special events, net of direct donor benefit expenses of \$25,242 and \$22,526	129,888	64,209
Total Revenue and Support	9,181,489	9,082,935
EXPENSES		
Program Services		
Regular education	5,898,670	6,542,037
Special education	1,733,653	1,381,010
Total Program Services	7,632,323	7,923,047
Supporting Services		
Management and general	1,582,892	1,549,204
Fundraising	154,137	172,532
Total Expenses	9,369,352	9,644,783
Change in Net Assets	(187,863)	(561,848)
NET ASSETS, UNRESTRICTED		
Beginning of year	2,079,410	2,641,258
End of year	\$ 1,891,547	\$ 2,079,410

See notes to financial statements

Community Roots Charter School

Statement of Functional Expenses
Year Ended June 30, 2018
(with summarized totals for the year ended June 30, 2017)

	2018			Management and General	Fundraising	Total	2017
	Program Services						
	Regular Education	Special Education	Total				
Salaries	\$ 4,154,690	\$ 1,167,078	\$ 5,321,768	\$ 1,099,822	\$ 75,476	\$ 6,497,066	\$ 6,691,649
Employee benefits and payroll taxes	1,032,436	290,018	1,322,454	273,596	18,756	1,614,806	1,788,725
Audit and accounting fees	-	-	-	35,458	-	35,458	25,255
Legal services	-	-	-	2,044	-	2,044	16,580
Professional services	43,762	12,196	55,958	-	-	55,958	36,689
Technology, infrastructure and software	63,996	17,977	81,973	18,104	-	100,077	85,338
Professional development	98,529	27,678	126,207	27,871	-	154,078	114,544
Marketing and recruiting	10,081	2,832	12,913	2,852	-	15,765	6,618
After school programs	22,033	6,156	28,189	-	-	28,189	31,297
Special education services and supplies	-	77,248	77,248	-	-	77,248	96,763
Classroom supplies and instructional material	190,567	53,107	243,674	1,265	-	244,939	237,259
Student trips and incentive programs	93,598	26,274	119,872	-	3,426	123,298	113,968
Student meals	1,105	314	1,419	-	-	1,419	8,360
Insurance	34,990	9,829	44,819	9,898	-	54,717	51,934
Office expenses and supplies	65,659	18,444	84,103	86,251	-	170,354	136,442
Occupancy	10,912	3,065	13,977	3,087	-	17,064	12,166
Postage and delivery	1,551	436	1,987	434	-	2,421	2,197
Interest and banking charges	-	-	-	1,061	-	1,061	288
Fundraising	-	-	-	-	56,479	56,479	58,985
Depreciation	74,761	21,001	95,762	21,149	-	116,911	129,726
Total Expenses	\$ 5,898,670	\$ 1,733,653	\$ 7,632,323	\$ 1,582,892	\$ 154,137	\$ 9,369,352	\$ 9,644,783

Community Roots Charter School

Statements of Cash Flows

	Year Ended June 30,	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (187,863)	\$ (561,848)
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation	116,911	129,726
Changes in operating assets and liabilities		
Grants and contracts receivable	74,892	(120,759)
Prepaid expenses and other current assets	(80,001)	(56,804)
Accounts payable and accrued expenses	(18,390)	94,787
Accrued payroll and payroll taxes	(26,982)	113,280
Refundable advances and other deferred revenue	46,032	1,172
Net Cash from Operating Activities	(75,401)	(400,446)
 CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(51,996)	(77,294)
Cash and cash equivalents, reserve	(1,198)	(1,201)
Restricted cash	(146)	(145)
Net Cash from Investing Activities	(53,340)	(78,640)
 Net Change in Cash and Cash Equivalents	(128,741)	(479,086)
 CASH AND CASH EQUIVALENTS		
Beginning of year	656,112	1,135,198
End of year	\$ 527,371	\$ 656,112

See notes to financial statements

Community Roots Charter School

Notes to Financial Statements
June 30, 2018 and 2017

1. Organization and Tax Status

Community Roots Charter School (the "School") is a New York State, not-for-profit educational corporation that was incorporated on December 9, 2005 to operate a charter school pursuant to Article 56 of the Education Law of the State of New York. The School was granted a provisional charter on December 9, 2005 valid for a term of five years and renewable upon expiration by the Board of Regents of the University of the State of New York. The Board of Regents approved and issued several renewals to the School's charter expiring on June 30, 2020. The School's mission is to provide a rigorous kindergarten through eighth grade learning community where learning is embedded in meaningful real world context where children are deliberately taught to see the connection between school and the world. The School provided education to approximately 473 students in kindergarten through eighth grade during the 2017-2018 academic year.

The School shares space with a New York City public school beginning in September 2006. On August 1, 2012, the School secured a second New York City public school location to house a newly opened middle school. The middle school provides education from sixth through eighth grades. The School is not responsible for rent, utilities, custodial services, maintenance and school safety services other than security related to the School's programs that take place outside the district's school day. The School was unable to determine a value for the contributed space and related services and did not record any value for use of donated facilities or services.

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

Except for taxes that may be due for unrelated business income, the School is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and from state and local income taxes under comparable laws.

2. Summary of Significant Accounting Policies

Basis of Presentation and Use of Estimates

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"), which 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. Accordingly actual results could differ from those estimates.

Community Roots Charter School

Notes to Financial Statements
June 30, 2018 and 2017

2. Summary of Significant Accounting Policies (*continued*)

Net Assets Presentation

Resources for various purposes are classified for accounting and reporting purposes into net asset categories established according to nature and purpose as follows:

Unrestricted - consist of resources available for the general support of the School's operations. Unrestricted net assets may be used at the discretion of the School's management and Board of Trustees. Board designated net assets were established by the Board of Trustees to provide a cash and cash equivalents reserve for unseen operating and capital expenses.

Temporarily Restricted - represent amounts restricted by donors for specific activities of the School or to be used at some future date. The School records contributions as temporarily restricted if they are received with donor stipulations that limit their use either through purpose or time restrictions. When a donor restriction expires, that is, when a time restriction ends or a purpose restriction is fulfilled, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions. However, when restrictions on donor-restricted contributions are met in the same accounting period in which they are received, such amounts are reported as unrestricted net assets.

Permanently Restricted - consist of net assets that are subject to donor imposed restrictions that require the School to maintain them permanently, including funds that are subject to restrictions of gift instruments requiring that the principal be invested in perpetuity and the income be used for specific or general purposes. Income and gains earned on endowment fund investments are available to be used in the unrestricted or temporarily restricted net asset classes based upon stipulations by the donors.

The School had no temporarily or permanently restricted net assets at June 30, 2018 and 2017.

Cash and Cash Equivalents

Cash and cash equivalents include cash balances held in bank accounts and highly liquid debt instruments with maturities of three months or less at the time of purchase.

Restricted Cash

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

Community Roots Charter School

Notes to Financial Statements
June 30, 2018 and 2017

2. Summary of Significant Accounting Policies (*continued*)

Property and Equipment

The School follows the practice of capitalizing all expenditures for property and equipment with costs in excess of \$1,000 and a useful life in excess of one year. Leasehold improvements are amortized over the shorter of the term of the lease, inclusive of all renewal periods, which are reasonably assured, or the estimated useful life of the asset which is five years. Purchased property and equipment are recorded at cost at the date of acquisition. Minor costs of maintenance and repairs are expensed as incurred. All property and equipment purchased with government funding is capitalized, unless the government agency retains legal title to such assets, in which case it is expensed as incurred.

Depreciation is recognized on the straight-line method over the estimated useful lives of such assets as follows:

Computers and equipment	3 years
Furniture and fixtures	7 years

Property and equipment are reviewed for impairment if the use of the asset significantly changes or another indicator of possible impairment is identified. If the carrying amount for the asset is not recoverable, the asset is written down to its fair value. There were no asset impairments for the years ended June 30, 2018 and 2017.

Refundable Advances

The School records certain government operating revenue as refundable advances until related services are performed, at which time they are recognized as revenue.

Revenue and support

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

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

Community Roots Charter School

Notes to Financial Statements
June 30, 2018 and 2017

2. Summary of Significant Accounting Policies (*continued*)

Functional Expense Allocation

The majority of expenses can generally be directly identified with the program or supporting service to which they relate and are charged accordingly. Other expenses by function have been allocated among program and supporting services classifications on the basis of periodic time and expense studies and other basis as determined by management of the School to be appropriate.

Accounting for Uncertainty in Income Taxes

The School recognizes the effect of income tax positions only if those positions are more likely than not to be sustained. Management has determined that the School had no uncertain tax positions that would require financial statement recognition or disclosure. The School is no longer subject to examinations by the applicable taxing jurisdictions for years prior to June 30, 2015.

Prior Year Summarized Comparative Financial Information

The statement of functional expenses includes prior-year summarized comparative information in total but not by function. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. GAAP. Accordingly, such information should be read in conjunction with the School's statement of functional expenses for the year ended June 30, 2017, from which the summarized information was derived.

Subsequent Events Evaluation by Management

Management has evaluated subsequent events for disclosure and/or recognition in the financial statements through the date that the financial statements were available to be issued, which date is September 10, 2018.

3. Grants and Contracts Receivable

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

Community Roots Charter School

Notes to Financial Statements
June 30, 2018 and 2017

4. Property and Equipment

Property and equipment consists of the following at June 30:

	2018	2017
Computers and equipment	\$ 545,831	\$ 768,366
Furniture and fixtures	128,017	213,600
Leasehold improvements	121,604	121,604
	795,452	1,103,570
Accumulated depreciation	(643,933)	(887,136)
	<u>\$ 151,519</u>	<u>\$ 216,434</u>

For the year ended June 30, 2018, the School disposed of fully depreciated property and equipment totaling \$360,114.

5. Employee Benefit Plan

The School maintains a pension plan qualified under Internal Revenue Code 403(b), for the benefit of its eligible employees. Under the plan, the School matched employee contributions up to 5% of annual compensation. Employee match for the years ended June 30, 2018 and 2017 amounted to \$188,750 and \$190,486.

6. Concentration of Credit Risk

Financial instruments that potentially subject the School to concentrations of credit and market risk consist principally of cash and cash equivalents on deposit with financial institutions, which from time to time may exceed the Federal Deposit Insurance Corporation ("FDIC") limit. The School does not believe that a significant risk of loss due to the failure of a financial institution presently exists. As of June 30, 2018 and 2017, approximately \$1,901,000 and \$2,049,000 of cash was maintained with an institution in excess of FDIC limits.

7. Concentration of Revenue and Support

The School receives a substantial portion of its revenue and support from the New York City Department of Education. For the years ended June 30, 2018 and 2017, the School received approximately 94% of its total revenue and support from the New York City Department of Education. If the charter school laws were modified, reducing or eliminating these revenues, the School's finances could be materially adversely affected.

8. Commitment

On October 13, 2016, the School signed a lease agreement with Regus Group Companies for office space under a non-cancelable lease expiring October 31, 2017. The School moved into this space on November 1, 2016. On November 1, 2017, the School renewed this lease through October 31, 2020. Under the terms of the lease, the School paid a security deposit in the amount of \$2,658. Rent expense under this lease for the years ended June 30, 2018 and 2017 amounted to \$17,064 and \$12,166.

Community Roots Charter School

Notes to Financial Statements
June 30, 2018 and 2017

8. Commitment (continued)

The future minimum rental payments under this lease is as follows for the years ending June 30:

2019	\$	15,580
2020		15,396
2021		<u>5,132</u>
	\$	<u>36,108</u>

9. Contingency

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

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

Independent Auditors' Report

**Board of Trustees
Community Roots Charter School**

We have audited, in accordance with the 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 Community Roots Charter School (the "School"), which comprise the statement of financial position as of June 30, 2018, 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 September 10, 2018.

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 from 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*.

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.

PKF O'Connor Davies, LLP

Harrison, New York
September 10, 2018