

URBAN CHOICE CHARTER SCHOOL

FINANCIAL STATEMENTS

For Years Ended June 30, 2017 and 2016

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Raymond F. Wager, CPA, P.C.
Certified Public Accountants

Shareholders:

Raymond F. Wager, CPA
Thomas J. Lauffer, CPA
Thomas C. Zuber, CPA

Members of
American Institute of
Certified Public Accountants
and
New York State Society of
Certified Public Accountants

Independent Auditors' Report

To the Board of Trustees
Urban Choice Charter School
Rochester, New York

We have audited the accompanying financial statements of the Urban Choice Charter School, Rochester, New York, which comprise the statement of financial position as of June 30, 2017 and 2016 and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

The School's 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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 Urban Choice Charter School, Rochester, New York as of June 30, 2017 and 2016, 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.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of functional expenses is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Raymond F. Wager, CPA, PC

October 25, 2017

URBAN CHOICE CHARTER SCHOOL
Statement of Financial Position
June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
<u>ASSETS:</u>		
Current Assets		
Cash and cash equivalents	\$ 786,281	\$ 559,769
Investment in Community Foundation	472,855	426,540
Grants receivable	236,173	63,704
Public school districts receivable	63,733	3,587
Prepaid items	4,014	1,963
Total Current Assets	<u>\$ 1,563,056</u>	<u>\$ 1,055,563</u>
Non-Current Assets		
Security deposit	\$ 35,000	\$ 35,000
Designated cash	75,000	75,000
Property and equipment, Net	618,227	679,302
Total Non-Current Assets	<u>\$ 728,227</u>	<u>\$ 789,302</u>
TOTAL ASSETS	<u><u>\$ 2,291,283</u></u>	<u><u>\$ 1,844,865</u></u>
<u>LIABILITIES:</u>		
Current Liabilities		
Accounts payable and accrued expenses	\$ 73,464	\$ 50,547
Accrued compensation	245,987	207,107
Unearned revenue	20,812	13,234
TOTAL LIABILITIES	<u>\$ 340,263</u>	<u>\$ 270,888</u>
<u>NET ASSETS:</u>		
Unrestricted Net Assets		
Fixed assets	\$ 618,227	\$ 679,302
Designated (non renewal)	75,000	75,000
Operating	1,257,793	819,675
TOTAL NET ASSETS	<u>\$ 1,951,020</u>	<u>\$ 1,573,977</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 2,291,283</u></u>	<u><u>\$ 1,844,865</u></u>

URBAN CHOICE CHARTER SCHOOL
Statement of Activities
For Years Ended June 30, 2017 and 2016

	2017	2016
	<u>Unrestricted</u>	<u>Unrestricted</u>
<u>OPERATING REVENUE:</u>		
Public School District -		
Resident student enrollment	\$ 4,986,482	\$ 4,941,225
Students with disabilities	227,682	225,062
Federal grants	258,453	241,489
Other grants	407,952	155,038
Federal food service	377,648	392,235
NYS food service	10,163	10,780
Contributions	8,037	8,210
Unrealized gain on investments	64,609	-
Other income	16,967	25,862
TOTAL OPERATING REVENUES	<u>\$ 6,357,993</u>	<u>\$ 5,999,901</u>
<u>EXPENSES:</u>		
Program Services		
Regular education	\$ 3,984,688	\$ 3,838,945
Other	869,208	859,657
Support Services		
Management and general	1,127,054	1,085,285
TOTAL EXPENSES	<u>\$ 5,980,950</u>	<u>\$ 5,783,887</u>
CHANGE IN NET ASSETS	\$ 377,043	\$ 216,014
NET ASSETS AT JULY 1	<u>1,573,977</u>	<u>1,357,963</u>
NET ASSETS AT JUNE 30	<u>\$ 1,951,020</u>	<u>\$ 1,573,977</u>

URBAN CHOICE CHARTER SCHOOL
Statement of Cash Flows
For Years Ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>		
Revenue from school districts	\$ 5,161,596	\$ 4,324,049
Grant receipts	493,936	458,338
Federal and state food service	387,811	400,850
Other receipts	22,953	34,072
Payments to charter school personnel	(4,318,371)	(4,078,200)
Payments to vendors for goods and services	(1,408,313)	(1,573,627)
Net cash flow from operating activities	\$ 339,612	\$ (434,518)
<u>CASH FLOWS FROM INVESTING ACTIVITIES:</u>		
Purchases of property and equipment	\$ (126,790)	\$ (146,466)
Purchases of investment in Community Foundation	13,690	(426,540)
Net Cash Used for Investing Activities	\$ (113,100)	\$ (573,006)
NET INCREASE (DECREASE) IN CASH	\$ 226,512	\$ (1,007,524)
CASH - JULY 1	559,769	1,567,293
CASH - JUNE 30	\$ 786,281	\$ 559,769
<u>RECONCILIATION OF CHANGE IN NET ASSETS TO</u>		
<u>NET CASH PROVIDED BY OPERATING ACTIVITIES:</u>		
Increase (Decrease) in net assets	\$ 377,043	\$ 216,014
Adjustments to reconcile changes in net assets to cash		
Provided by Activities -		
Depreciation	187,853	207,152
Changes in assets and liabilities -		
Grants receivable	(172,469)	59,646
Public school district receivable	(60,146)	42,239
Unrealized gain on investments	(64,609)	-
Prepaid items	(2,051)	1,003
Accounts payable and accrued expenses	66,413	(76,095)
Unearned revenue	7,578	(884,477)
Net Cash Provided by (used for) Operating Activities	\$ 339,612	\$ (434,518)

URBAN CHOICE CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

(Note 1) Organization - General Information:

The Urban Choice Charter School (the School) is an independent public school established under the provisions of the New York State Charter School Act of 1998, enacted as Article 56 of the Education Law. The School was chartered by the Board of Regents of the New York State Education Department (NYSED) in 2005 and its current charter has been renewed through June 2017.

It is the School's mission to provide students in Rochester, New York with a safe, supportive, and intellectually engaging educational environment. The central philosophy of the School is that strong student-teacher relationships are essential to student motivation and achievement. The School is designed to strengthen these bonds and assist students in overcoming the demographic destiny of poverty and exceed state achievement standards. The 2016-17 school year represents the School's twelfth year of operation. During this academic year, the School provided educational instruction to students in kindergarten through eighth grade.

(Note 2) Summary of Significant Accounting Policies:

A. Basis of Accounting

The financial statements have been prepared in conformity with accounting principles generally accepted in the United States.

B. Basis of Presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its codified ASC-958 (formerly SFAS No. 117), *Financial Statements of Not-for-Profit Organizations*. The Urban Choice Charter School is required to report information regarding its financial position and activities according to three classes of net assets: Unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. The Urban Choice Charter School currently has only unrestricted net assets.

Board-designated net assets were established by the Board to provide a reserve for unforeseen dissolution as required by their charter.

C. Revenue Recognition

The School records public school district revenue on a per student basis at rates established by New York State for the school district in which the student resides. Final determination of the revenue earned by the School is subject to review by the Rochester City School District. A provision is made in the financial statements for anticipated adjustments that may result from such reviews.

Grant revenue and public school district revenue is recognized as the related costs are incurred. Amounts received in advance of incurring the related costs are reported as unearned revenue.

(Note 2) (Continued)

D. Program Services

Regular education expenses include costs incurred in connection with the educational activities of the School. Other program expenses include costs incurred in connection with other than instructional activities provided to students, i.e., community services, health services, food services, athletic services, music and theatre arts, and other student activities.

E. Cash and Cash Equivalents

The balances in these accounts may, at times, exceed federally insured limits. The School has not experienced any losses in these accounts and believes it is not exposed to any significant credit risk with respect to cash.

F. Designated Cash

In accordance with NYSED regulations, the School is required to maintain funds to pay for expenses associated with the potential termination of the School or non-renewal of the School's charter. At June 30, 2017 the School had designated funds totaling \$75,000 to satisfy this requirement.

G. Income Taxes

The Urban Choice Charter School has received IRS approval to become a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and classified by the IRS as other than a private foundation.

The Urban Choice Charter School's Form 990, Return of Organization Exempt From Income Tax, for the years ending 2014, 2015, and 2016 are subject to examination by the IRS, generally for 3 years after they were filed.

H. Donated Services

Volunteers have donated significant amounts of time in support of the School's activities. However, the value of these services is not reflected in the accompanying statements, as they do not meet the criteria for recognition as set forth under generally accepted accounting principles.

I. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

J. Capital Assets

The Urban Choice Charter School considers all equipment purchases greater than \$2,000 with a useful life in excess of one year to be a capital asset. Depreciation is provided using the straight-line method over the estimated useful lives.

(Note 3) Changes in Fixed Assets:

The school has invested in the following fixed assets.

	<u>Balance</u> <u>7/1/2016</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>6/30/2017</u>
Leasehold improvements	\$ 1,496,951	\$ 29,984	\$ -	\$ 1,526,935
Furniture & Equipment	481,207	96,795	-	578,002
Less Accumulated Depreciation	<u>(1,298,856)</u>	<u>(187,854)</u>	<u>-</u>	<u>(1,486,710)</u>
Total Fixed Assets	<u>\$ 679,302</u>	<u>\$ (61,075)</u>	<u>\$ -</u>	<u>\$ 618,227</u>

(Note 4) Investments:

Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets. If investment income and gains are restricted by a donor, they are reported as increases in unrestricted net assets if the restrictions are met (either by passage of time or by use) in the reporting period in which the income and gains are recognized.

The Foundation adopted the provisions of FASB ASC 820-10 (formally SFAS No. 157, *Fair Value Measurements*), which establishes a fair value hierarchy that defines three discrete "levels" of valuation techniques to determine the fair value of investments. Level 1 inputs consist of quoted (unadjusted) prices in active markets for identical assets at the measurement date, Level 2 inputs are inputs other than individual quoted prices that are observable either directly or indirectly, and Level 3 inputs are unobservable inputs and are to be used only if observable inputs are not available.

The Foundation values investments in securities listed on a national securities exchange or reported on the NASDAQ national market at their last sales price as of the last business day of the year. All investments are managed by the Rochester Area Community Foundation (RACF).

Fair Value Measurement –

The Foundation's investments are recorded at fair value and the following table presents information about the Foundation's equity investments as of June 30, 2017:

<u>June 30, 2017</u>	<u>Quoted Prices</u> <u>From (RACF)</u> <u>(Level 1)</u>
The Rochester Area Community Foundation Pooled Investments	<u>\$ 472,855</u>

(Note 5) Line of Credit:

The School has a \$200,000 line of credit agreement with a bank that is renewable on an annual basis. There were no outstanding amounts at June 30, 2017.

(Note 6) Retirement Plan:

The School sponsors a tax sheltered annuity 403(b) retirement savings plan (the Plan) for all employees. Employees are eligible to participate if they are at least 21 years of age and have to be scheduled to work at least 500 hours of service annually. The School matches 3% of the employees' contributions to the Plan for 1-4 years of service. The percentage increases thereafter. The School recognized retirement plan expense related to its contributions to the Plan of \$133,025 during the year ended June 30, 2017.

(Note 7) Commitments:

The School leases its facilities under the terms of an operating lease agreement through July 2017. Future minimum rental payments under terms of this agreement are \$21,708 monthly.

Rent expense recognized under the terms of this agreement was approximately \$260,500 for the year ended June 30, 2017.

(Note 8) Concentrations:

The School's primary source of funding is obtained from the Rochester City School District and is reported as resident student enrollment revenue in the accompanying statement of activities and change in net assets. This funding is received on a per pupil basis and was approximately 83% of the School's total revenue for the year ended June 30, 2017.

(Note 9) Evaluation of Subsequent Events

The organization has evaluated subsequent events through October 25, 2017, the date which the financial statements were available.

URBAN CHOICE CHARTER SCHOOL
Schedule of Functional Expenses
For the Year Ended June 30, 2017 (with comparative totals for 2016)

	2 0 1 7			2017 Total	2016 Total
	Program Services		Supporting Services		
	Regular Education	Other	Management and General		
Salaries -					
Faculty and administration	\$ 2,194,374	\$ 245,119	\$ 684,044	\$ 3,123,537	\$ 3,004,059
Cafeteria	-	100,396	-	100,396	90,416
Employee benefits and payroll taxes	771,632	147,454	221,182	1,140,268	1,073,831
Food and supplies	-	335,758	-	335,758	337,414
Occupancy	323,419	19,025	38,049	380,493	380,779
Contracted services	86,553	627	35,685	122,865	131,943
Repairs and maintenance	107,886	5,850	11,701	125,437	108,974
Instructional supplies	179,072	-	-	179,072	196,719
Professional fees	-	-	41,505	41,505	47,390
Travel and meetings	32,445	-	471	32,916	33,960
Equipment purchase and rental	37,385	5,586	2,626	45,597	45,673
Staff development	9,208	-	-	9,208	8,697
Special activities	42,944	-	907	43,851	22,054
Insurance	40,096	-	4,761	44,857	44,039
Office supplies	-	-	20,330	20,330	15,792
Marketing	-	-	31,163	31,163	21,848
Postage	-	-	5,260	5,260	5,572
Other	-	-	10,584	10,584	7,575
OPERATING EXPENSES BEFORE DEPRECIATION	\$ 3,825,014	\$ 859,815	\$ 1,108,268	\$ 5,793,097	\$ 5,576,735
Depreciation	159,674	9,393	18,786	187,853	189,488
TOTAL EXPENSES	\$ 3,984,688	\$ 869,208	\$ 1,127,054	\$ 5,980,950	\$ 5,766,223

URBAN CHOICE CHARTER SCHOOL

**COMMUNICATING INTERNAL CONTROL
RELATED MATTERS IDENTIFIED IN AN AUDIT**

For Year Ended June 30, 2017

Raymond F. Wager, CPA, P.C.
Certified Public Accountants

Shareholders:

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October 25, 2017

To the Board of Trustees
Urban Choice Charter School
Rochester, New York

In planning and performing our audit of the financial statements of the Urban Choice Charter School as of and for the year ended June 30, 2017, in accordance with auditing standards generally accepted in the United States of America, we considered the Urban Choice Charter School's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control. 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 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.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

Prior Year Deficiency Pending Corrective Action:

Disbursements –

We noted five instances where selected payments were not supported by a completed requisition and/or a documented receiving signature.

We recommend the School review its current Board policy on purchasing to determine if any changes are warranted regarding when requisitions are required. In addition, in an effort to improve internal accounting controls, we recommend that all invoice packets contain a receiving signature prior to payment.

Prior Year Recommendations:

We are pleased to report the following prior year recommendations have been implemented to our satisfaction:

1. The mitigating controls over the accounting functions appear to be functioning properly.
2. A formal process has been implemented to verify the appropriateness of a new vendor by obtaining a completed W-9 form.
3. Our review of selected payroll transactions revealed no exceptions.

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This communication is intended solely for the information and use of management, the Board of Trustees, and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

We wish to express our appreciation to all staff for the courtesies extended to us during the course of our examination.

Raymond J. Wager, CPA, PC

October 25, 2017