

**PINNACLE CHARTER SCHOOL
FINANCIAL STATEMENTS
WITH ADDITIONAL INFORMATION**

June 30, 2010

INDEPENDENT AUDITORS' REPORT

The Board of Trustees
Pinnacle Charter School

We have audited the accompanying balance sheets of Pinnacle Charter School (the School) as of June 30, 2010 and 2009, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the School's management. 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 with 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our 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, 2010 and 2009, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 15, 2010 on our consideration of the School's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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*, and should be considered in assessing the results of our audit.



September 15, 2010

PINNACLE CHARTER SCHOOL

Balance Sheets

June 30,	2010	2009
Assets		
Current assets:		
Cash	\$ 2,195,109	\$ 1,369,014
Grants and other receivables (Note 2)	131,812	118,772
Prepaid expenses	26,922	58,003
	2,353,843	1,545,789
Deposits	61,500	61,500
Property and equipment, net (Note 3)	1,839,247	1,992,224
Deferred financing costs, net (Note 4)	30,716	36,860
	\$ 4,285,306	\$ 3,636,373
Liabilities and Net Assets		
Current liabilities:		
Current portion of long-term debt (Note 5)	\$ 453,717	\$ 161,289
Accounts payable	165,446	128,599
Accrued expenses	905,211	830,052
	1,524,374	1,119,940
Long-term debt (Note 5)	877,893	1,331,206
Net assets:		
Unrestricted	1,883,039	1,185,227
	\$ 4,285,306	\$ 3,636,373

See accompanying notes.

PINNACLE CHARTER SCHOOL

Statements of Activities

For the years ended June 30,	2010	2009
Changes in unrestricted net assets:		
Support and revenue:		
Public school districts:		
Revenue - resident student enrollment	\$ 5,421,799	\$ 5,020,068
Revenue - students with disabilities	458,303	326,946
Federal grants	406,699	321,252
Private grants	1,300	700
Other income	90,704	28,659
Total unrestricted support and revenue	<u>6,378,805</u>	<u>5,697,625</u>
Expenses:		
Program expenses:		
Regular education	3,871,670	3,638,040
Special education	383,834	360,177
Other programs	562,727	460,962
	<u>4,818,231</u>	<u>4,459,179</u>
Supporting services:		
Management and general	862,762	847,518
Total expenses	<u>5,680,993</u>	<u>5,306,697</u>
Change in unrestricted net assets	697,812	390,928
Net assets - beginning	<u>1,185,227</u>	<u>794,299</u>
Net assets - ending	<u>\$ 1,883,039</u>	<u>\$ 1,185,227</u>

Statements of Cash Flows

For the years ended June 30,	2010	2009
Operating activities:		
Change in net assets	\$ 697,812	\$ 390,928
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Amortization	6,144	6,144
Depreciation	264,906	269,069
Changes in other operating assets and liabilities:		
Grants and other receivables	(13,040)	180,792
Prepaid expenses	31,081	38,992
Accounts payable	36,847	(110,250)
Accrued expenses	75,159	88,665
Net operating activities	1,098,909	864,340
Investing activities:		
Property and equipment expenditures	(111,929)	(69,885)
Financing activities:		
Principal repayments on long-term debt	(160,885)	(145,831)
Net change in cash	826,095	648,624
Cash - beginning	1,369,014	720,390
Cash - ending	\$ 2,195,109	\$ 1,369,014

Notes to Financial Statements

1. Summary of Significant Accounting Policies:

Organization and Purpose:

Pinnacle Charter School (the School) operates a charter school in the City of Buffalo, New York, approved by the Board of Regents of the State University of New York. The School currently offers classes from kindergarten through grade 8. The School has been re-chartered through 2013, after which time the charter may be renewed, upon application, for five more years.

Subsequent Events:

The School has evaluated events and transactions for potential recognition or disclosure in the financial statements through September 15, 2010 (the date the financial statements were available to be issued).

Cash:

Cash in financial institutions potentially subjects the School to concentrations of credit risk, since it may exceed insured limits at various times throughout the year.

Accounts Receivable:

Accounts receivable are stated at the amounts management expects to collect from outstanding balances. Balances that are outstanding after management has used reasonable collection efforts are written off through a charge to bad debts expense and a credit to accounts receivable. An allowance for doubtful accounts is considered unnecessary by management because all significant amounts deemed uncollectible are written off each year.

Property and Equipment:

Property and equipment is stated at cost net of accumulated depreciation. Depreciation is provided over estimated asset service lives. Maintenance and repairs are charged to operations as incurred; significant improvements are capitalized.

Leased equipment is depreciated over the lesser of the length of the related leases or the estimated useful lives of the assets.

Deferred Revenue:

Certain grant awards are recognized as exchange transactions and are reflected in the accompanying financial statements as deferred revenue until related services are performed.

Enrollment fees:

The School is reimbursed by each student's resident school district annually based on the product of the State approved operating expense of the district and the full time equivalent enrollment of the students in the School residing in the district. The School's enrollment fees are received primarily from the City of Buffalo Board of Education.

Fees and Grants:

The School is the recipient of awards and reimbursements from various federal, state and local sources. The awards and reimbursements are subject to various compliance and financial audits by the funding source. Management believes no significant adjustments are necessary to recognized amounts.

Support:

Contributions received are measured at fair value, and reported as an increase in net assets. The School reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets, or if they are designated as support for future periods. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Contributions received with donor-imposed restrictions that are met in the same reporting period are shown as unrestricted revenue.

Income Taxes:

The School is a 501(c)(3) organization exempt from taxation under Section 501(a) of the Internal Revenue Code.

Management believes that the School is no longer subject to examination by federal and state taxing authorities for years prior to 2007.

Use of Estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Cost Allocation:

The School's costs of providing its various programs and activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

2. Grants and Other Receivables:

	2010	2009
Grants	\$ 106,334	\$ 43,280
Resident student enrollment	25,392	61,882
Other	86	13,610
	<u>\$ 131,812</u>	<u>\$ 118,772</u>

3. Property and Equipment:

	2010	2009
Building improvements	\$ 2,455,909	\$ 2,404,339
Instructional equipment	583,693	530,088
Furniture and equipment	120,671	113,917
Land improvements	2,170	2,170
	<u>3,162,443</u>	<u>3,050,514</u>
Less accumulated depreciation	1,323,196	1,058,290
	<u>\$ 1,839,247</u>	<u>\$ 1,992,224</u>

4. Deferred Financing Costs:

Deferred financing costs are amortized on a straight-line basis over the 10 year term of the related loan.

5. Long-Term Debt:

	2010	2009
Bank note payable, monthly installments of \$18,002 including interest at 7.75%, secured by substantially all School assets, final payment due May 2016.	\$ 1,010,045	\$ 1,141,989
Bank note payable, monthly installments of \$4,127 including interest at 7.25%, secured by substantially all School assets, balloon payment of \$300,000 due October 2010.	307,717	333,766
Other	13,848	16,740
	<u>1,331,610</u>	<u>1,492,495</u>
Less current portion	453,717	161,289
	<u>\$ 877,893</u>	<u>\$ 1,331,206</u>

Aggregate maturities on long-term debt subsequent to June 30, 2010 are:

2011	\$ 454,000
2012	158,000
2013	170,900
2014	181,500
2015	194,000
Thereafter	<u>173,210</u>
	<u>\$ 1,331,610</u>

The bank loan agreements contain restrictive covenants relating to, among other things, the maintenance of debt service coverage.

6. Retirement Plan:

The School participates in the New York State Teachers' Retirement System (TRS) which is a cost-sharing multiple employer, public employee retirement system. TRS offers a wide range of plans and benefits which are related to years of service and final average salary, vesting of retirement benefits, death and disability.

New York State Teachers' Retirement System:

TRS is administered by the New York State Teachers' Retirement Board and provides benefits to plan members and beneficiaries as authorized by the Education Law and the Retirement and Social Security Law of the State of New York. TRS issues a publicly available financial report that contains financial statements and required supplementary information for the system. The report may be obtained by writing to the New York State Teachers' Retirement System, 10 Corporate Woods Drive, Albany, NY 12211-2395.

Funding Policies:

TRS is noncontributory except for employees who joined after July 27, 1976 who contribute 3% of their salary. Pursuant to Article 11 of the Education Law, rates are established annually by the New York State Teachers' Retirement Board at an actuarially determined rate. The rate is 6.19% of the annual covered payroll for the year ended June 30, 2010, and 7.63% for the year ended June 30, 2009.

The required contributions for the years ended June 30, 2010 and 2009 were \$187,000 and \$221,300.

7. Operating Lease:

The School entered into an agreement to lease property under the terms of a non-cancelable operating lease. Rental expense under this lease was \$410,000 and \$421,500 for the years ended June 30, 2010 and 2009.

Future minimum basic rentals to be paid for this lease are:

2011	\$	410,000
2012		410,000
2013		410,000
2014		410,000
2015		410,000
Thereafter		<u>1,290,000</u>
		<u>\$ 3,340,000</u>

The lease contains various terms, including three successive five year periods from lease inception which automatically renew unless the School's charter is not renewed for the successive period. The lease also requires the School to pay its pro-rata share of the real estate taxes and utilities annually.

8. Cash Flows Information:

Net cash flows from operating activities reflect cash payments for interest of \$109,913 and \$120,805 for the years ended June 30, 2010 and 2009. Amounts paid for interest approximate expense recognized in the accompanying financial statements.

**INDEPENDENT AUDITORS' REPORT
ON ADDITIONAL INFORMATION**

The Board of Trustees
Pinnacle Charter School

Our report on our audits of the basic financial statements of Pinnacle Charter School for 2010 and 2009 appears on page 1. Those audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The additional information on page 9 is presented for purposes of additional analysis, and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audits of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.



September 15, 2010

PINNACLE CHARTER SCHOOL

**Additional Information
Schedule of Expenses**

For the year ended June, 30, 2010 (with comparative totals for 2009)

	Program Services			Supporting	2010 Total	2009 Total
	Regular Education	Special Education	Other Programs	Management and General		
Salaries	\$ 2,277,918	\$ 229,630	\$ 369,876	\$ 344,729	\$ 3,222,153	\$ 2,902,610
Employee benefits and taxes	557,747	56,225	90,564	84,406	788,942	763,715
Advertising	-	-	-	26,934	26,934	38,582
Contracted services	41,751	35,804	-	11,543	89,098	100,500
Food service	-	-	282	-	282	468
Dues and subscriptions	6,187	624	1,005	936	8,752	8,844
Fundraising	-	-	-	15,358	15,358	-
Insurance	-	-	-	55,440	55,440	54,704
Interest	-	-	-	109,913	109,913	120,805
Occupancy	301,704	30,414	48,989	45,658	426,765	438,490
Postage	-	-	-	4,656	4,656	3,591
Printing	18,440	1,859	2,994	2,790	26,083	10,832
Supplies and materials	47,330	-	-	-	47,330	66,845
Office expense	-	-	-	4,582	4,582	3,549
Other expenses	50,587	5,100	8,214	7,655	71,556	25,420
Professional fees	-	-	-	68,735	68,735	71,135
Repairs and maintenance	148,466	14,966	24,107	22,469	210,008	205,493
Staff development	10,138	-	-	514	10,652	19,555
Technology	13,176	-	-	-	13,176	25,339
Telephone	24,984	2,519	4,057	3,780	35,340	29,754
Textbooks	13,035	-	-	-	13,035	25,183
Transportation (student)	67,248	-	-	-	67,248	-
Travel	4,737	478	769	717	6,701	6,267
Utilities	61,649	6,215	10,010	9,330	87,204	109,803
	3,645,097	383,834	560,867	820,145	5,409,943	5,031,484
Amortization	-	-	-	6,144	6,144	6,144
Depreciation	226,573	-	1,860	36,473	264,906	269,069
Total	\$ 3,871,670	\$ 383,834	\$ 562,727	\$ 862,762	\$ 5,680,993	\$ 5,306,697

See auditors' report on additional information.

**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**

The Board of Trustees
Pinnacle Charter School

We have audited the financial statements of Pinnacle Charter School (the School) as of and for the year ended June 30, 2010, and have issued our report thereon dated September 15, 2010. 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, we considered the School's internal control over financial reporting 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the School's internal control over financial reporting.

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 entity's financial statements will not be prevented or detected and corrected on a timely basis.

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

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 that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Trustees, management, New York State Department of Education, federal awarding agencies and pass-through entities. It is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in blue ink that reads "Lunden & McCormick, LLP". The signature is written in a cursive style. To the right of the signature is a vertical yellow line.

September 15, 2010