

ALOMA D. JOHNSON FRUIT BELT  
COMMUNITY CHARTER SCHOOL

Financial Statements and  
Supplementary Information

June 30, 2009

(With Independent Auditors' Report Thereon)

ALOMA D. JOHNSON FRUIT BELT  
COMMUNITY CHARTER SCHOOL

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**TOSKI, SCHAEFER & CO., P.C.**

CERTIFIED PUBLIC ACCOUNTANTS

555 INTERNATIONAL DRIVE

WILLIAMSVILLE, NEW YORK 14221

TELEPHONE (716) 634-0700

FAX (716) 634-0764

INDEPENDENT AUDITORS' REPORT

The Board of Trustees  
Aloma D. Johnson Fruit Belt  
Community Charter School:

We have audited the accompanying statement of financial position of Aloma D. Johnson Fruit Belt Community Charter School as of June 30, 2009, and the related statements of activities, functional expenses and cash flows for the year 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 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 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 audit provides 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 Aloma D. Johnson Fruit Belt Community Charter School as of June 30, 2009, and the changes in its net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the School will continue as a going concern. As discussed in note 7, the School has suffered a loss from operations and has a net asset deficiency that raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in note 7. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

In accordance with Government Auditing Standards, we have also issued our report dated December 23, 2009 on our consideration of Aloma D. Johnson Fruit Belt Community Charter School's internal control over financial reporting and on 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.

*Toski, Schaefer & Co. P.C.*

Williamsville, New York  
December 23, 2009

ALOMA D. JOHNSON FRUIT BELT  
COMMUNITY CHARTER SCHOOL  
Statement of Financial Position  
June 30, 2009

<u>Assets</u>	
Current assets:	
Cash	\$ 20,128
Receivables - Grants	6,540
Prepaid expenses	<u>3,241</u>
Total current assets	<u>29,909</u>
Property and equipment, at cost	420,793
Less accumulated depreciation and amortization	<u>(9,160)</u>
Net property and equipment	<u>411,633</u>
Total assets	<u><u>\$ 441,542</u></u>
 <u>Liabilities and Net Assets</u>	
Current liabilities:	
Accounts payable	176,736
Accrued expenses:	
Payroll and payroll taxes	97,467
Pension	45,729
Interest	792
Other	<u>1,790</u>
Total accrued expenses	<u>145,778</u>
Deferred revenue	6,801
Notes payable	529,944
Current installments of capital lease obligation	<u>8,772</u>
Total current liabilities	868,031
Capital lease obligation, excluding current installments	<u>32,400</u>
Total liabilities	900,431
Unrestricted net assets (deficit)	(458,889)
Commitments and contingencies (note 8)	<u>          </u>
Total liabilities and net assets	<u><u>\$ 441,542</u></u>

See accompanying notes to financial statements.

ALOMA D. JOHNSON FRUIT BELT  
COMMUNITY CHARTER SCHOOL  
Statement of Activities  
Year ended June 30, 2009

Unrestricted revenue:	
Public School Districts:	
Resident student enrollment	\$ 1,085,580
Students with disabilities	49,964
Grant income	242,802
Other	<u>1,916</u>
Total unrestricted revenue	<u>1,380,262</u>
Unrestricted expenses:	
Program services:	
Regular education	1,529,876
Special education	<u>66,492</u>
Total program services	1,596,368
Management and general	<u>233,211</u>
Total unrestricted expenses	<u>1,829,579</u>
Decrease in unrestricted net assets	(449,317)
Unrestricted net assets (deficit) at beginning of year	<u>(9,572)</u>
Unrestricted net assets (deficit) at end of year	<u>\$ (458,889)</u>

See accompanying notes to financial statements.

ALOMA D. JOHNSON FRUIT BELT  
COMMUNITY CHARTER SCHOOL  
Statement of Functional Expenses  
Year ended June 30, 2009

	Program Services			Management and general	Total
	Regular education	Special education	Total		
Salaries	\$ 690,514	29,295	719,809	117,178	836,987
Payroll taxes	66,731	2,831	69,562	11,324	80,886
Employee benefits	143,842	6,102	149,944	24,409	174,353
Office expense	13,720	582	14,302	2,328	16,630
Printing and production	1,650	70	1,720	280	2,000
Telephone	5,667	240	5,907	962	6,869
Meetings and travel	255	11	266	43	309
Consulting fees	65,770	2,790	68,560	11,161	79,721
Supplies	47,343	2,008	49,351	8,034	57,385
Interest expense	13,202	560	13,762	2,240	16,002
Professional fees	7,979	339	8,318	1,354	9,672
Advertising	18,436	782	19,218	3,129	22,347
Dues and subscriptions	2,665	113	2,778	452	3,230
Insurance	10,766	457	11,223	1,827	13,050
Legal fees	8,353	354	8,707	1,418	10,125
Occupancy	250,800	10,640	261,440	42,560	304,000
Staff development	6,495	276	6,771	1,102	7,873
Program expense	35,354	1,861	37,215	-	37,215
Health Center costs	528	22	550	90	640
Security	185	8	193	32	225
Student transportation	118,660	6,245	124,905	-	124,905
Depreciation and amortization	7,557	321	7,878	1,282	9,160
Extracurricular activities	1,583	83	1,666	-	1,666
Miscellaneous	11,821	502	12,323	2,006	14,329
Total unrestricted expenses	\$ 1,529,876	66,492	1,596,368	233,211	1,829,579

See accompanying notes to financial statements.

ALOMA D. JOHNSON FRUIT BELT  
COMMUNITY CHARTER SCHOOL  
Statement of Cash Flows  
Year ended June 30, 2009

Cash flows from operating activities:	
Decrease in unrestricted net assets	\$ (449,317)
Adjustments to reconcile decrease in unrestricted net assets to net cash used in operating activities:	
Depreciation and amortization	9,160
Changes in:	
Receivables	(6,540)
Prepaid expenses	(3,241)
Accounts payable	134,953
Accrued expenses	145,778
Deferred revenue	<u>6,801</u>
Net cash used in operating activities	<u>(162,406)</u>
Cash flows from investing activities - additions to property and equipment	<u>(331,594)</u>
Cash flows from financing activities:	
Proceeds from notes payable	517,448
Repayment of notes payable	(15,057)
Repayment of capital lease obligation	<u>(6,244)</u>
Net cash provided by financing activities	<u>496,147</u>
Net increase in cash	2,147
Cash at beginning of year	<u>17,981</u>
Cash at end of year	<u><u>\$ 20,128</u></u>
Supplemental schedule of cash flow information:	
Cash paid during the year for interest	<u>\$ 15,120</u>
Total acquisition of property and equipment	420,793
Less property and equipment financed by:	
Accounts payable	(41,783)
Capital lease obligation	<u>(47,416)</u>
Additions to property and equipment	<u><u>\$ 331,594</u></u>

See accompanying notes to financial statements.

ALOMA D. JOHNSON FRUIT BELT  
COMMUNITY CHARTER SCHOOL

Notes to Financial Statements

June 30, 2009

(1) Summary of Significant Accounting Policies

(a) Nature of Activities

The Aloma D. Johnson Fruit Belt Community Charter School (the School) was chartered by the Board of Regents of the State University of New York at on February 12, 2008 for a term of five years pursuant to Article 56 of the New York State Education Law. The School is a K-2 public school primarily funded through the Board of Education of the City School District of the City of Buffalo.

(b) Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

(c) Basis of Presentation

The School reports 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 School had only unrestricted net assets in 2009.

(d) 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.

(e) Cash

For purposes of the statement of cash flows, the School considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

(f) Receivables

Receivables are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. Changes in the valuation allowance have not been material to the financial statements.

(g) Capitalization, Depreciation and Amortization

Property and equipment are recorded at cost or fair market value at the date of the gift in the case of donated equipment. If donors stipulate how long the assets must be used, the contributions are recorded as restricted support. In the absence of such stipulations, contributions of equipment are recorded as unrestricted support.

ALOMA D. JOHNSON FRUIT BELT  
COMMUNITY CHARTER SCHOOL

Notes to Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

(g) Capitalization, Depreciation and Amortization, Continued

Depreciation and amortization is provided for in amounts sufficient to relate the cost of depreciable assets to operations over their estimated service lives using the straight-line method. Improvements are capitalized, while expenditures for maintenance and repairs are charged to expense as incurred. Upon disposal of depreciable property, the appropriate property accounts are reduced by the related costs and accumulated depreciation and amortization. The resulting gains and losses are reflected in the statement of activities.

(h) Deferred Revenue and Revenue Recognition

Grant awards accounted for as exchange transactions are recorded as revenue when expenditures have been incurred in compliance with the grant restrictions. Amounts unspent are recorded in the statement of financial position as deferred revenue.

(i) Donated Equipment, Materials, Supplies and Personal Services

Donated equipment, materials and supplies are reflected in the financial statements based on the fair market value at the time of donation.

Donated personal services meeting the requirements for recognition in the financial statements was not material and has not been recorded. However, many individuals volunteer their time and perform a variety of tasks that assist the School.

(j) Promises to Give

Contributions are recognized when the donor makes an unconditional promise to give to the School. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

(k) Expense Allocation

The costs of providing various programs other than activities have been summarized on a functional basis in the statement of activities and in the statement of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

ALOMA D. JOHNSON FRUIT BELT  
COMMUNITY CHARTER SCHOOL  
Notes to Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

(l) Recent Accounting Pronouncements

In June 2009, the Financial Accounting Standards Board (FASB) issued the Accounting Standards Codification (Codification). Effective July 1, 2009, the Codification is the single source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with U.S. generally accepted accounting principles (GAAP). The Codification is intended to reorganize, rather than change, existing GAAP. Accordingly, all references to currently existing GAAP have been removed and have been replaced with plain English explanations of the School's accounting policies. The adoption of the Codification did not have a material impact on the School's financial position or results of operations.

(m) Subsequent Events

The School has evaluated events after June 30, 2009 and through December 23, 2009, which is the date the financial statements were available to be issued, and determined that any events or transactions occurring during this period that would require recognition or disclosure are properly addressed in these financial statements.

(n) Income Taxes

The School is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code, therefore, no provision for income taxes is reflected in the financial statements.

(2) Property and Equipment

Property and equipment as of June 30, 2009 is summarized as follows:

Leasehold improvements	\$ 351,050
Equipment	47,416
Books	<u>22,327</u>
	420,793
Less accumulated depreciation and amortization	<u>(9,160)</u>
Net property and equipment	\$ <u>411,633</u>

ALOMA D. JOHNSON FRUIT BELT  
COMMUNITY CHARTER SCHOOL  
Notes to Financial Statements, Continued

(3) Notes Payable

Notes payable at June 30, 2009 are summarized as follows:

Note payable to M & T Bank, secured by the assets of the School, St. John Fruit Belt Community Development Corporation and St. John Baptist Church of Buffalo, due on demand and absent demand, due monthly through October 12, 2012, with interest at prime plus 1.0% (4.25% at June 30, 2009)	\$ 335,523
Line of credit of \$150,000 to M & T Bank, secured by the assets of the School, St. John Fruit Belt Community Development Corporation and St. John Baptist Church of Buffalo, due on demand, with interest at prime plus 0.5% (3.75% at June 30, 2009)	149,421
Note payable, non-interest, unsecured, due on demand	<u>45,000</u>
Total notes payable	\$ <u>529,944</u>

(4) Capital Lease Obligation

The School leased copiers under the terms of a capital lease agreement at an interest rate of 6.0%. The lease obligation and the related equipment have been capitalized for financial reporting purposes. The following is a summary of equipment under the capital lease obligation as of June 30, 2009:

Cost of equipment	\$ 47,416
Less accumulated depreciation	<u>(4,681)</u>
Net capitalized equipment	\$ <u>42,735</u>

Depreciation of leased equipment for the year ended June 30, 2009 amounted to \$4,681. Future minimum lease payments under the operating lease is as follows:

2010	\$ 11,047
2011	11,047
2012	11,047
2013	11,047
2014	<u>2,763</u>
Total minimum lease payments	46,951
Less amount representing interest on capital lease obligation	<u>(5,779)</u>
Capital lease obligation	41,172
Less current portion of capital lease obligation	<u>(8,772)</u>
Capital lease obligation, excluding current portion	\$ <u>32,400</u>

ALOMA D. JOHNSON FRUIT BELT  
COMMUNITY CHARTER SCHOOL  
Notes to Financial Statements, Continued

(5) Pension Plans

The School participates in the New York State Teachers' Retirement System (TRS), which is a cost-sharing multiple employer, public employees retirement system. The System 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. All benefits generally vest after ten years of service.

TRS is administered by the New York State Teachers' Retirement Board and provides retirement, disability, withdrawal and death 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. The 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, New York 12211.

The System requires plan member contributions of 3% of their annual salary except for those plan members who joined prior to July 1976 or have greater than 10 years of service. Pursuant to Article 11 of the Education law, employer rates are established annually for TRS by the New York State Teachers' Retirement Board at an actuarially determined rate. The employer rates for TRS were 7.63% of the annual covered payroll as of June 30, 2009. Required annual contributions by the School for the year ended June 30, 2009 amounted to \$35,445.

(6) Advertising Costs

Advertising costs are expensed as incurred. Advertising expense amounted to \$22,347 for the year ended June 30, 2009.

(7) Going Concern

The School reported a decrease in unrestricted net assets amounting to \$449,317 for the year ended June 30, 2009. Additionally, the School has an accumulated unrestricted net deficit amounting to \$458,889. There were three factors during the year ended June 30, 2009 that contributed to the deficiency as follows:

1. Originally planned enrollment was 180 students versus 110 actual.
2. Staffing for the first two months was based upon enrollment of 180 students when the actual was 110 students.
3. Unanticipated transportation costs provided by the Buffalo City School District amounted to approximately \$125,000 for the year ended June 30, 2009.

ALOMA D. JOHNSON FRUIT BELT  
COMMUNITY CHARTER SCHOOL  
Notes to Financial Statements, Continued

(7) Going Concern, Continued

Management has taken action to increase its revenue and decrease its expenses for the fiscal year 2009-2010. Enrollment is approximately 275 students and the School has projected a surplus of \$85,000. Additionally, enrollment for the 2010-2011 fiscal year is estimated to increase to 300 students. Management also plans to have in place controls to monitor its ongoing operating costs. Finally, management is pursuing other grant sources in order to supplement the per pupil aid and to reduce the accumulated unrestricted net deficit.

(8) Commitments and Contingencies

Commitments and contingencies at June 30, 2009 consist of the following:

(a) Lease

The School leases its facility from St. John Baptist Church of Buffalo, under an operating lease expiring on May 31, 2012. Rent expense amounted to \$304,000 for the year ended June 30, 2009. Future minimum lease payments under the operating lease is as follows:

2010	\$ 304,000
2011	304,000
2012	<u>304,000</u>
	<u>\$ 912,000</u>

(b) Government Grants

The School has received Federal and State Aid and various Grants which are subject to audit by agencies of the Federal and State governments. Such audits may result in disallowances and a request for a return of funds to the Federal and State governments. The School believes disallowances, if any, would not be material.

(c) Litigation

The School is involved in various litigation arising in the ordinary course of business. In the opinion of management, no loss will be incurred as a result of this litigation.