

NIAGARA CHARTER SCHOOL

Financial Statements and  
Supplementary Information

June 30, 2009

(With Independent Auditors' Report Thereon)

# NIAGARA CHARTER SCHOOL

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**INDEPENDENT AUDITORS' REPORT**

The Board of Trustees  
Niagara Charter School:

We have audited the accompanying statement of financial position of Niagara 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. The prior year summarized comparative information has been derived from the School's 2008 financial statements and in our report dated October 15, 2008, we expressed an unqualified opinion on those financial statements.

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 Niagara 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.

In accordance with Government Auditing Standards, we have also issued our report dated September 18, 2009 on our consideration of Niagara 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  
September 18, 2009

NIAGARA CHARTER SCHOOL  
 Statement of Financial Position  
 June 30, 2009  
 with comparative totals for 2008

|  | <u>Assets</u>                     | <u>2009</u>       | <u>2008</u>      |
|--|-----------------------------------|-------------------|------------------|
| Current assets:                                |                                   |                   |                  |
| Cash   |                                   | \$ 62,240         | 53,093           |
| Receivables:                                   |                                   |                   |                  |
| School districts                               |                                   | 1,605             | -                |
| Other  |                                   | <u>21,473</u>     | <u>15,732</u>    |
| Total receivables                              |                                   | 23,078            | 15,732           |
| Prepaid expenses                               |                                   | <u>30,832</u>     | <u>30,001</u>    |
| Total current assets                           |                                   | <u>116,150</u>    | <u>98,826</u>    |
| Property and equipment, at cost                |                                   | 259,048           | 215,582          |
| Less accumulated depreciation                  |                                   | <u>(117,576)</u>  | <u>(70,607)</u>  |
| Net property and equipment                     |                                   | <u>141,472</u>    | <u>144,975</u>   |
| Other assets - utility deposit                 |                                   | <u>13,425</u>     | <u>13,425</u>    |
| Total assets                                   |                                   | <u>\$ 271,047</u> | <u>257,226</u>   |
|  | <u>Liabilities and Net Assets</u> |                   |                  |
| Current liabilities:                           |                                   |                   |                  |
| Accounts payable                               |                                   | 125,190           | 114,616          |
| Accrued expenses:                              |                                   |                   |                  |
| Payroll and payroll taxes                      |                                   | 104,772           | 82,465           |
| Pension  |                                   | 152,682           | 147,134          |
| Interest                                       |                                   | <u>278</u>        | <u>960</u>       |
| Total accrued expenses                         |                                   | <u>257,732</u>    | <u>230,559</u>   |
| Current installments of long-term debt         |                                   | <u>38,733</u>     | <u>190,471</u>   |
| Total current liabilities                      |                                   | 421,655           | 535,646          |
| Long-term debt, excluding current installments |                                   | <u>-</u>          | <u>38,597</u>    |
| Total liabilities                              |                                   | <u>421,655</u>    | <u>574,243</u>   |
| Net assets:                                    |                                   |                   |                  |
| Unrestricted net assets (deficit)              |                                   | (179,443)         | (317,017)        |
| Temporarily restricted                         |                                   | <u>28,835</u>     | <u>-</u>         |
| Total net assets (deficit)                     |                                   | <u>(150,608)</u>  | <u>(317,017)</u> |
| Commitments (notes 5, 6 and 7)                 |                                   |                   |                  |
| Total liabilities and net assets               |                                   | <u>\$ 271,047</u> | <u>257,226</u>   |

See accompanying notes to financial statements.

NIAGARA CHARTER SCHOOL

Statement of Activities

Year ended June 30, 2009

with comparative totals for 2008

|  | Unrestricted        | Temporarily<br>restricted | Total            |                  |
|--|---------------------|---------------------------|------------------|------------------|
|  |                     |                           | 2009             | 2008             |
| Revenue:                                   |                     |                           |                  |                  |
| Public School Districts:                   |                     |                           |                  |                  |
| Resident student enrollment                | \$ 3,357,098        | -                         | 3,357,098        | 2,717,973        |
| Students with disabilities                 | 134,253             | -                         | 134,253          | 127,345          |
| Other revenue from public school districts | 24,487              | -                         | 24,487           | 26,715           |
| Grant income                               | 236,521             | -                         | 236,521          | 186,206          |
| Contributions                              | 1,536               | 28,835                    | 30,371           | 3,486            |
| Uniform income                             | 1,983               | -                         | 1,983            | 9,596            |
| Other                                      | 19,634              | -                         | 19,634           | 11,531           |
| Total revenue                              | <u>3,775,512</u>    | <u>28,835</u>             | <u>3,804,347</u> | <u>3,082,852</u> |
| Expenses:                                  |                     |                           |                  |                  |
| Program services:                          |                     |                           |                  |                  |
| Regular education                          | 2,824,620           | -                         | 2,824,620        | 2,506,276        |
| Special education                          | 133,100             | -                         | 133,100          | 149,317          |
| Total program services                     | <u>2,957,720</u>    | <u>-</u>                  | <u>2,957,720</u> | <u>2,655,593</u> |
| Management and general                     | 680,218             | -                         | 680,218          | 603,997          |
| Total expenses                             | <u>3,637,938</u>    | <u>-</u>                  | <u>3,637,938</u> | <u>3,259,590</u> |
| Increase (decrease) in net assets          | 137,574             | 28,835                    | 166,409          | (176,738)        |
| Net assets (deficit) at beginning of year  | <u>(317,017)</u>    | <u>-</u>                  | <u>(317,017)</u> | <u>(140,279)</u> |
| Net assets (deficit) at end of year        | <u>\$ (179,443)</u> | <u>28,835</u>             | <u>(150,608)</u> | <u>(317,017)</u> |

See accompanying notes to financial statements.

**NIAGARA CHARTER SCHOOL**  
**Statement of Functional Expenses**  
**Year ended June 30, 2009**  
**with comparative totals for 2008**

|                            | Program Services     |                      | Management<br>and<br>general | Total            |                  |
|----------------------------|----------------------|----------------------|------------------------------|------------------|------------------|
|                            | Regular<br>education | Special<br>education |                              | 2009             | 2008             |
| Salaries                   | \$ 1,430,735         | 67,417               | 374,538                      | 1,872,690        | 1,602,333        |
| Payroll taxes              | 122,548              | 5,775                | 32,081                       | 160,404          | 134,271          |
| Employee benefits          | 309,347              | 14,577               | 80,981                       | 404,905          | 300,204          |
| Office expense             | 9,463                | 446                  | 2,477                        | 12,386           | 13,149           |
| Printing and production    | 11,026               | 520                  | 2,887                        | 14,433           | 12,389           |
| Telephone                  | 6,884                | 324                  | 1,802                        | 9,010            | 19,154           |
| Meetings and travel        | 2,509                | 118                  | 657                          | 3,284            | 10,821           |
| Consulting fees            | 30,550               | 1,440                | 7,997                        | 39,987           | 34,046           |
| Supplies                   | 41,055               | 1,934                | 10,747                       | 53,736           | 61,310           |
| Interest expense           | 5,570                | 262                  | 1,458                        | 7,290            | 14,026           |
| Professional fees          | 13,355               | 629                  | 3,496                        | 17,480           | 18,296           |
| Advertising                | 3,079                | 145                  | 806                          | 4,030            | 4,931            |
| Dues and subscriptions     | 4,727                | 223                  | 1,237                        | 6,187            | 1,959            |
| Insurance                  | 31,393               | 1,479                | 8,218                        | 41,090           | 50,769           |
| Legal fees                 | 42,286               | 1,993                | 11,070                       | 55,349           | 53,759           |
| Occupancy                  | 360,412              | 16,983               | 94,349                       | 471,744          | 473,149          |
| Repairs and maintenance    | 30,405               | 1,433                | 7,959                        | 39,797           | 31,990           |
| Staff development          | 27,223               | 1,283                | 7,127                        | 35,633           | 46,726           |
| Utilities                  | 65,297               | 3,077                | 17,094                       | 85,468           | 76,650           |
| Garbage collection         | 6,702                | 316                  | 1,755                        | 8,773            | 6,939            |
| Health Center costs        | 3,457                | 163                  | -                            | 3,620            | 2,973            |
| Security                   | 5,619                | 265                  | 1,471                        | 7,355            | 1,983            |
| Student transportation     | 213,225              | 10,047               | -                            | 223,272          | 230,002          |
| Depreciation               | 35,884               | 1,691                | 9,394                        | 46,969           | 40,653           |
| Extracurricular activities | 10,007               | 472                  | -                            | 10,479           | 6,913            |
| Miscellaneous              | 1,862                | 88                   | 617                          | 2,567            | 10,195           |
| <b>Total expenses</b>      | <b>\$ 2,824,620</b>  | <b>133,100</b>       | <b>680,218</b>               | <b>3,637,938</b> | <b>3,259,590</b> |

See accompanying notes to financial statements.

NIAGARA CHARTER SCHOOL  
 Statement of Cash Flows  
 Year ended June 30, 2009  
 with comparative totals for 2008

|  | <u>2009</u>      | <u>2008</u>     |
|--|------------------|-----------------|
| Cash flows from operating activities:  |                  |                 |
| Increase (decrease) in net assets  | \$ 166,409       | (176,738)       |
| Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities: |                  |                 |
| Depreciation   | 46,969           | 40,653          |
| Changes in:  |                  |                 |
| Receivables  | (7,346)          | 195,883         |
| Prepaid expenses   | (831)            | (26,392)        |
| Accounts payable   | 10,574           | 47,904          |
| Accrued expenses   | 27,173           | (191)           |
| Net cash provided by operating activities  | <u>242,948</u>   | <u>81,119</u>   |
| Cash flows from investing activities - additions to property and equipment                               | <u>(43,466)</u>  | <u>(7,208)</u>  |
| Cash flows from financing activities:  |                  |                 |
| Proceeds from long-term debt   | -                | 22,000          |
| Repayment of long-term debt  | <u>(190,335)</u> | <u>(48,873)</u> |
| Net cash used in financing activities  | <u>(190,335)</u> | <u>(26,873)</u> |
| Net increase in cash   | 9,147            | 47,038          |
| Cash at beginning of year  | <u>53,093</u>    | <u>6,055</u>    |
| Cash at end of year  | <u>\$ 62,240</u> | <u>53,093</u>   |
| Supplemental schedule of cash flow information - cash paid during the year for interest                  | <u>\$ 7,972</u>  | <u>13,175</u>   |

See accompanying notes to financial statements.

# NIAGARA CHARTER SCHOOL

## Notes to Financial Statements

June 30, 2009

### (1) Summary of Significant Accounting Policies

#### (a) Nature of Activities

Niagara Charter School (the School) was chartered by the Board of Regents of the University at the State of New York on July 21, 2005 for a term of five years pursuant to Article 56 of the New York State Education Law. The School is a K-5 public school primarily funded through the Board of Education of the City School District at the City of Niagara Falls.

#### (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 follows Statement of Financial Accounting Standards (SFAS) No. 117, "Financial Statements of Not-for-Profit Organizations." Under SFAS No. 117, the 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 School does not have any permanently restricted net assets. Accordingly, net assets of the School and changes therein are classified and reported as follows:

Unrestricted net assets – Net assets that are not subject to donor-imposed stipulations and may be used for any purpose designated by the School's Board of Directors.

Temporarily restricted net assets – Net assets subject to donor-imposed stipulations that may or will be met either by actions of the School and/or the passage of time.

#### (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) Capitalization and Depreciation

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.

NIAGARA CHARTER SCHOOL  
Notes to Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

(f) Capitalization and Depreciation, Continued

Depreciation 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. The resulting gains and losses are reflected in the statement of activities.

(g) 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.

(h) 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.

(i) 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.

(j) 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.

(k) 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.

NIAGARA CHARTER SCHOOL  
Notes to Financial Statements, Continued

(2) Property and Equipment

Property and equipment are recorded at cost. A summary of property and equipment at June 30, 2009 and 2008 is as follows:

|                               | <u>2009</u>       | <u>2008</u>     |
|-------------------------------|-------------------|-----------------|
| Leasehold improvements        | \$ 19,297         | 4,716           |
| Furniture and equipment       | 229,200           | 200,315         |
| Books                         | <u>10,551</u>     | <u>10,551</u>   |
|                               | 259,048           | 215,582         |
| Less accumulated depreciation | <u>(117,576)</u>  | <u>(70,607)</u> |
| Net property and equipment    | <u>\$ 141,472</u> | <u>144,975</u>  |

(3) Long-Term Debt

Long-term debt at June 30, 2009 and 2008 is as follows:

|   | <u>2009</u>     | <u>2008</u>      |
|---|-----------------|------------------|
| 8.6% note payable, secured by the assets of the School, payable in monthly principal and interest installments of \$4,939 to February 2010  | \$ 38,733       | 92,068           |
| Line of credit of \$200,000, secured by the assets of the School, due on demand, with interest at prime plus 1.50% (4.75% at June 30, 2009) | <u>-</u>        | <u>137,000</u>   |
|   | 38,733          | 229,068          |
| Less current installments   | <u>(38,733)</u> | <u>(190,471)</u> |
| Long-term debt, excluding current installments  | <u>\$ -</u>     | <u>38,597</u>    |

(4) Temporarily Restricted Net Assets

Temporarily restricted net assets amounting to \$28,835 at June 30, 2009 are restricted for a playground to be built for the School. There were no temporarily restricted net assets at June 30, 2008.

(5) Lease Obligation - Related Party

The School leases its facility under an operating lease which expires in July 2026 from a company whose officer is a member of the School's Board of Trustees. The School has the option to extend the term of this lease for one five year interval. The lease will terminate on expiration or non-renewal of the School's charter. Rent expense amounted to \$471,744 and \$473,149 for the years ended June 30, 2009 and 2008, respectively.

NIAGARA CHARTER SCHOOL  
Notes to Financial Statements, Continued

(5) Lease Obligation - Related Party, Continued

Minimum future rental payments under the operating lease for the five years following June 30, 2009 and thereafter are as follows:

|            |                     |
|------------|---------------------|
| 2010       | \$ 471,744          |
| 2011       | 471,744             |
| 2012       | 471,744             |
| 2013       | 471,744             |
| 2014       | 471,744             |
| Thereafter | <u>5,660,928</u>    |
|            | <u>\$ 8,019,648</u> |

(6) Transportation Services Obligations

The School has an agreement for bus transportation with a private carrier for its students expiring on July 1, 2010. Minimum future transportation payments due under the agreement amount to \$260,400 during the year ending June 30, 2010.

(7) Severance Agreement

The School entered into a severance agreement with its former Chief Executive Officer terminating his employment contract in exchange for the payment of \$130,000 during the fiscal year ending June 30, 2010. Such payments are contingent on, among other things, his cooperation with any need the school may have in connection with its transition from a school operating with a chief executive officer to a school operating with a chief academic officer.

(8) Pension Plans

The School participates in the New York State Teachers' Retirement (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 NYSTRS, 10 Corporate Woods Drive, Albany, New York 12211-2395.

NIAGARA CHARTER SCHOOL  
Notes to Financial Statements, Continued

(8) Pension Plans, Continued

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 % and 8.73% of the annual covered payroll as of June 30, 2009 and 2008, respectively. Required annual contributions by the School for the year ended June 30, 2009 and 2008 amounted to \$152,682 and \$147,134, respectively.

(9) Advertising Costs

Advertising costs are expensed as incurred. Advertising expense amounted to \$4,030 and \$4,931 for the years ended June 30, 2009 and 2008, respectively.

(10) Charter Agreement

The School has a five-year agreement with New York State Department of Education that expires on July 22, 2010. The School has applied for an additional five-year term extension. The School's existence is dependent upon the state's evaluation of the School's financial and academic performance. Management believes, but can offer no assurances, that the School will receive an extension for another five-year term.

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INDEPENDENT AUDITORS' 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  
Niagara Charter School:

We have audited the financial statements of Niagara Charter School as of and for the year ended June 30, 2009, and have issued our report thereon dated September 18, 2009. 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 Niagara Charter 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 Niagara Charter School's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Niagara Charter School's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

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 internal control that might be significant deficiencies and, accordingly, would not disclose all significant deficiencies that are also considered to be 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 Niagara Charter 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 have reported to the management of Niagara Charter School in a separate letter dated September 18, 2009.

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

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

Williamsville, New York  
September 18, 2009