



RIVERHEAD CHARTER SCHOOL, INC.

***FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT***

FOR THE YEARS ENDED JUNE 30, 2010 AND 2009



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RIVERHEAD CHARTER SCHOOL, INC.

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009
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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
Riverhead Charter School, Inc.
3685 Middle Country Road
Calverton, New York 11933

We have audited the accompanying statements of financial position of the Riverhead Charter School, Inc. ("the School," a not-for-profit organization) as of June 30, 2010 and 2009, and the related statements of activities, functional expenses, 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 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of NPO's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 October 6, 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, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audits.

Cerini & Associates LLP

Bohemia, New York
October 6, 2010

RIVERHEAD CHARTER SCHOOL, INC.

STATEMENTS OF FINANCIAL POSITION
JUNE 30,

	2010	2009
ASSETS		
Current Assets:		
Cash (Note 3).....	\$ 2,619,874	\$ 2,150,025
Investments (Note 2).....	57,836	56,833
Prepaid expenses.....	3,274	19,364
Accounts receivable, net (Note 6).....	199,967	225,222
Grants receivable (Note 6).....	111,078	182,516
Other current assets (Note 5).....	369,118	-
	TOTAL CURRENT ASSETS	3,361,147
		2,633,960
Property and equipment, net (Note 5).....	2,963,200	3,268,342
Security deposit.....	31,060	1,060
Restricted cash (Note 7).....	75,000	75,000
	TOTAL ASSETS	\$ 6,430,407
		\$ 5,978,362
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accounts payable and accrued expenses	\$ 687,637	\$ 520,797
Due to funding sources and school districts.....	24,401	91,747
Current portion of amounts due to Edison Schools, Inc. (Note 4).....	253,503	223,065
Current portion of notes payable (Note 4).....	98,397	84,358
	TOTAL CURRENT LIABILITIES	1,063,938
		919,967
Due to Edison Schools, Inc., net of current portion (Note 4).....	617,215	851,801
Notes payable, net of current portion (Note 4).....	3,491,305	3,589,702
	TOTAL LIABILITIES	5,172,458
		5,361,470
Commitments and contingencies (Notes 3, 4, 5, 6, 7, and 8)		
Net assets.....	1,257,949	616,892
	TOTAL LIABILITIES AND NET ASSETS	\$ 6,430,407
		\$ 5,978,362

The accompanying notes are an integral part of these financial statements.

RIVERHEAD CHARTER SCHOOL, INC.

**STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30,**

	2010	2009
REVENUE AND SUPPORT:		
Tuition and program service income (Notes 3 and 4).....	\$ 3,457,864	\$ 3,574,293
Government grants (Notes 3 and 7).....	187,785	332,031
Investment income (Note 2).....	3,736	7,275
Other income.....	7,696	4,616
TOTAL REVENUE AND SUPPORT	3,657,081	3,918,215
EXPENSES:		
Program services.....	2,487,366	2,783,328
Management and general.....	628,280	670,314
TOTAL EXPENSES	3,115,646	3,453,642
Change in net assets before extraordinary items.....	541,435	464,573
Extraordinary gain (Note 5).....	99,622	-
Forgiveness of debt (Note 4).....	-	687,774
Change in net assets.....	641,057	1,152,347
Net assets/(deficit), beginning of year.....	616,892	(535,455)
Net assets, end of year.....	\$ 1,257,949	\$ 616,892

RIVERHEAD CHARTER SCHOOL, INC.

**STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2010**

	Program Services	Management and General	Total
	<u> </u>	<u> </u>	<u> </u>
Salaries and wages	\$ 1,259,164	\$ 393,282	\$ 1,652,446
Payroll taxes and related benefits	356,998	111,503	468,501
Advertising	-	2,919	2,919
Occupancy costs	42,305	3,473	45,778
Contracted services	21,552	61,418	82,970
Travel and transportation	199,632	205	199,837
Supplies	31,567	8,161	39,728
Core curriculum	16,238	-	16,238
Telephone and communications	16,167	5,050	21,217
Repairs and maintenance	79,191	23,912	103,103
Equipment	6,149	3,342	9,491
Meals and entertainment	-	-	-
Depreciation expense	150,651	2,294	152,945
Interest expense (Note 6)	277,771	4,230	282,001
Conferences	5,478	708	6,186
Recruitment	3,802	-	3,802
Insurance	17,498	4,515	22,013
Miscellaneous	3,203	3,268	6,471
	<u>\$ 2,487,366</u>	<u>\$ 628,280</u>	<u>\$ 3,115,646</u>

RIVERHEAD CHARTER SCHOOL, INC.

**STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2009**

	<u>Program Services</u>	<u>Management and General</u>	<u>Total</u>
Salaries and wages	\$ 1,297,206	\$ 384,449	\$ 1,681,655
Payroll taxes and related benefits	464,022	143,098	607,120
Advertising	7,449	-	7,449
Occupancy costs	52,724	5,752	58,476
Contracted services	50,494	84,696	135,190
Travel and transportation	170,650	330	170,980
Supplies	35,327	8,195	43,522
Core curriculum	29,744	-	29,744
Telephone and communications	11,740	3,620	15,360
Repairs and maintenance	79,758	6,570	86,328
Equipment	4,850	4,454	9,304
Meals and entertainment	-	930	930
Depreciation expense	363,774	5,540	369,314
Interest expense (Note 6)	181,895	2,770	184,665
Conferences	14,394	7,046	21,440
Recruitment	1,917	125	2,042
Insurance	18,745	12,505	31,250
Miscellaneous	(1,361)	234	(1,127)
	<u>\$ 2,783,328</u>	<u>\$ 670,314</u>	<u>\$ 3,453,642</u>

RIVERHEAD CHARTER SCHOOL, INC.

**STATEMENTS OF CASH FLOWS
FOR YEARS ENDED JUNE 30,**

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets.....	\$ 641,057	\$ 1,152,347
<u>Adjustments to reconcile change in net assets to net cash provided by operating activities:</u>		
Depreciation expense.....	152,945	369,314
Extraordinary gain	(99,622)	-
Forgiveness of debt.....	-	(687,774)
<u>Changes in operating assets and liabilities:</u>		
Prepaid expenses.....	16,090	683
Accounts receivable.....	25,255	1,687,065
Grants receivable.....	71,438	480,901
Other current assets	(30,000)	-
Accounts payable and accrued expenses.....	166,840	79,970
Due to funding sources and school districts.....	(67,346)	1,197
Net cash provided by operating activities	876,657	3,083,703
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of fixed assets.....	(117,299)	(39,913)
Purchase of investments.....	(1,003)	(1,395)
Cash used in investing activities	(118,302)	(41,308)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayment to Edison Schools, Inc.....	(204,148)	(1,237,360)
Repayment of debt.....	(84,358)	(738,178)
Cash used in financing activities	(288,506)	(1,975,538)
Net change in cash	469,849	1,066,857
Cash, beginning of year.....	2,150,025	1,083,168
Cash, end of year.....	<u>\$ 2,619,874</u>	<u>\$ 2,150,025</u>
OTHER SUPPLEMENTAL INFORMATION:		
Interest paid	<u>\$ 282,001</u>	<u>\$ 184,665</u>
NON CASH OPERATING DISCLOSURE:		
Proceeds due from insurance company for building fire	<u>\$ 369,118</u>	<u>\$ -</u>

RIVERHEAD CHARTER SCHOOL, INC.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies of the Riverhead Charter School, Inc. (hereinafter "the School") is presented to assist in understanding the School's financial statements. These financial statements and notes are representations of the School's management, which is responsible for the integrity and objectivity of the financial statements. These accounting policies conform to accounting principles generally accepted in the United States of America and have been consistently applied in the preparation of the financial statements.

Organization: The School is a not-for-profit organization that was incorporated under Article 56 of the Education Law on February 1, 2001 pursuant to a five-year provisional charter granted by the Education Department of the State of New York ("NYSED"). The School's main objective is to offer students a true choice in public education, which promotes love of learning and local exploration. The School's goal is to provide a rigorous community of learning, which is inviting and stimulating to staff and parents, as well as students. The School intends to reverse the current spiral of student failure and meet or exceed State and federal standards, to nurture the individual gifts of every student, and to prepare them for a rewarding community life. On April 21, 2009, the School's charter was renewed by the Education Department of the State of New York through June 30, 2014.

Income Tax Status: The School is exempt from federal income tax under section 501(c)(3) of the Internal Revenue Code and is publicly supported, as described in section 509(a). The School is also exempt from State and local taxes. The School evaluated for uncertain tax positions and has determined that there were no uncertain tax positions for 2010 and 2009.

The School files a Form 990 and respective state and local tax returns. These tax returns are subject to review and examination by federal, state and local authorities. Tax returns for the years ended June 30, 2010, 2009 and 2008 are open for examination by federal, state and local authorities. The School has determined that it has registered in all states where it is required to be registered.

Revenue Recognition: The School recognizes revenue on government and private grants when reimbursable expenditures under qualified programs are expended. Grants are typically fully expended within a one-year cycle. Tuition income is earned as education is provided to students enrolled at the School.

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. Revenue is recorded as earned and expenses are recorded when incurred.

Advertising: The School uses advertising to promote its program and fundraising events among the public it serves. The production costs of advertising are expensed as incurred.

RIVERHEAD CHARTER SCHOOL, INC.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Use of Estimates: The presentation 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 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 revenue and expenses during the reporting period. Actual results could differ from these estimates.

Basis of Presentation: Financial statement presentation follows the recommendations of the Financial Accounting Standards Board, specifically for not-for-profit organizations. 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.

Unrestricted net assets – Net assets that are not subject to donor-imposed stipulations.

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

Permanently restricted net assets – Net assets subject to donor-imposed stipulations that must be maintained permanently by the School. Generally, the donors of these assets would permit the School to use all or part of the income earned on any related investments for general or specific purposes.

Donated Services: No amounts have been reflected in the financial statements for donated services. The School generally pays for services requiring specific expertise. However, many individuals volunteer their time and perform a variety of tasks that assist the School with programs, management, and various committee assignments.

Expense Allocation: Directly identifiable expenses are charged to programs and supporting services. Expenses related to more than one function are allocated to programs and supporting services based upon management estimates.

Contributions: Contributions are recognized when the donor makes a promise to give to the School that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal 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.

Property and Equipment: Property and equipment are stated at original cost. Those assets acquired by gift are carried at fair market value established at the date of acquisition.

RIVERHEAD CHARTER SCHOOL, INC.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Maintenance and repairs are charged to expense and betterments are capitalized. Depreciation expense is computed using the straight-line method over each asset's estimated useful life as follows:

Building	25 years
Building improvements.....	10 – 25 years
Equipment	3.5 – 5 years

Subsequent Events: The School has evaluated events and transactions that occurred between July 1, 2010 and October 6, 2010, which is the date the financial statements were available to be issued, for possible disclosure and recognition in the financial statements.

NOTE 2 - INVESTMENTS

Investments are presented in the statements of financial position at fair value. A fair value hierarchy has been established based upon the observability of inputs to the evaluation of an asset or liability as of the measurement date. The three-level valuation techniques are based upon observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect market assumptions. These two types of inputs create the following fair-value levels:

- Level 1 - quoted prices for identical instruments in active markets;
- Level 2 - quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations the significant inputs for which are observable; and
- Level 3 - instruments the significant inputs for which are unobservable.

All of the investments held by the School are in certificates of deposit ("CD's") which are considered Level 2 investments and are presented in the accompanying financial statements at fair value. The fair value of the CD's is determined based upon quoted prices at June 30, 2010 and 2009.

Interest income from such CD's amounted to \$3,736 and \$7,275 for the years ended June 30, 2010 and 2009 respectively.

RIVERHEAD CHARTER SCHOOL, INC.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

NOTE 3 - CONCENTRATIONS AND COMMITMENTS

From time to time, the School has cash on deposit with a financial institution in excess of Federal Deposit Insurance Corporation-insured limits. At June 30, 2010, this amount was approximately \$2,288,099.

During fiscal 2010, approximately 92% of the School's total support and revenue was comprised of tuition income from several Eastern Suffolk County school districts, the largest of which were: Riverhead Central School District (41%), Longwood Central School District (14%), William Floyd School District (24%), South Country District (7%), and other school districts (14%). The remaining 8% was primarily comprised of grants from the Education Department of the State of New York.

Effective July 1, 2008, the School entered into a collective bargaining agreement with its teachers and teacher assistants through the Teachers Association. The agreement, which expired on June 30, 2009, provided for merit-based increases for teachers and teachers assistants of 3% for fiscal 2009. The School and the Teachers Association are currently in negotiations for a successor to the agreement. As of the date of this report, the terms and conditions set forth in the expired agreement will continue, except for salary increases, which are on hold until an agreement is reached.

NOTE 4 - CONTRACTUAL OBLIGATIONS

On July 12, 2001, the School entered into a contract with Edison Schools, Inc. ("Edison") to serve as the School's management company. This contract expired on June 30, 2006 and the School entered into a new contract. The new contract, which expired on June 30, 2008, required Edison, to the extent permitted by law, to provide the School with a complete educational program and the related management and administrative services necessary to implement the program, including billing and collections.

In exchange for its services, the contract specified that Edison would receive a fee based upon the total revenue and earnings of the School, net of debt service and a fixed fee.

On August 22, 2001, the School purchased a building and one acre of land in Calverton, New York for \$850,000. This building currently serves as the schoolhouse for fourth, fifth and sixth grade classes. During February 2002, the School also purchased an additional five acres of adjacent land for \$490,000, upon which a new facility will be constructed to house the balance of the School's classes and ancillary curriculum. The School has completed the construction of its administrative facilities and has constructed a portion of the necessary infrastructure. Until construction is complete, the School is utilizing modular classrooms for its Kindergarten through third grade classes.

RIVERHEAD CHARTER SCHOOL, INC.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

NOTE 4 - CONTRACTUAL OBLIGATIONS (continued)

In order to finance these and future capital expenditures, the School borrowed approximately \$4,010,488 in principal from Edison under two separate promissory notes payable. These notes, which bore interest at an annual rate of 10%, were secured by a mortgage, assignment of leases and rents, and a security agreement covering substantially all assets of the School. On May 15, 2004, Edison amended and restated the construction loan. The restated loan terms were as follows:

The first note payable, as restated on May 15, 2004, has a maximum principal sum of \$3,703,000. Accrued interest through the conversion date is not included in the maximum principal sum; however, it is included as total debt to be amortized. Effective August 1, 2004, the loan was converted to a permanent loan whereby the entire outstanding principal and related accrued interest through that date were converted into a term loan with a 20-year amortization and a maturity date of September 30, 2006. The maturity date was subsequently extended by Edison to July 31, 2008.

The second note payable dated January 4, 2002 has a maximum principal sum of \$538,806. Accrued interest through the conversion date is not included in the maximum principal sum; however, it is included as total debt to be amortized. Effective July 1, 2002, the entire outstanding balance was converted to a permanent loan with a 20-year amortization and a maturity date of January 31, 2007. The maturity date was subsequently extended by Edison to July 31, 2008.

Effective July 1, 2008, the School terminated its management agreement with Edison. As outlined below, pursuant to the separation agreement, Edison agreed to accept \$3,000,000 in full settlement of the unsecured balance outstanding at June 30, 2008.

As outlined above, the School terminated the management agreement with Edison. On October 24, 2008, the School and Edison signed a termination agreement with regards to its unsecured debt as follows:

Edison accepted \$3,000,000 in full payment of the unsecured working capital advances it had provided the School (as discussed in Note 4). This was evidenced by a promissory note payable at \$1,800,000 during November 2008, with the \$1,200,000 balance payable in sixty monthly payments, commencing in December 2008, of \$22,645 including principal and interest at 5%.

This resulted in forgiveness of debt to the School during fiscal 2008 of \$186,840.

RIVERHEAD CHARTER SCHOOL, INC.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009**

NOTE 4 - CONTRACTUAL OBLIGATIONS (continued)

During December 2008, Edison signed an agreement with respect to its secured note. The terms of the termination agreement are as follows:

Edison accepted \$3,725,000 in full settlement of the aforementioned secured debt. This amount is payable over a twenty-year amortization of \$28,880 of principal and interest per month commencing January 2009, with a balloon payment of the then outstanding balance due on the loans' five year anniversary. Providing the School is not in default with any of the terms of the termination agreement, the School, at its option, can renew the loan for three more five-year terms at the same twenty-year amortization as the initial loan. The loan is secured by the School's property which had a net book value of \$2,963,200 and \$3,268,342 at June 30, 2010 and 2009, respectively. The debt to Edison bears interest at 7%.

The result of this agreement was forgiveness of debt to the School by Edison of \$687,774, which has been reflected as forgiveness of debt income during fiscal 2009.

Future obligations pursuant to the outstanding long-term debt obligations to Edison are as follows for the years ending June 30,:

	<u>Due to Edison</u>	<u>Note Payable</u>	<u>Total</u>
2011	253,503	98,397	351,900
2012	246,474	105,510	351,984
2013	259,084	113,137	372,221
2014	111,657	121,316	232,973
2015	-	130,086	130,086
Thereafter	-	<u>3,021,256</u>	<u>3,021,256</u>
Total	<u>\$ 870,718</u>	<u>\$ 3,589,702</u>	<u>\$ 4,460,420</u>

RIVERHEAD CHARTER SCHOOL, INC.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009**

NOTE 5 - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at June 30:

	<u>2010</u>	<u>2009</u>
Land	\$ 794,457	\$ 794,457
Building	2,455,048	2,709,386
Building improvements.....	658,190	658,190
Equipment.....	<u>205,532</u>	<u>198,650</u>
	4,113,227	4,360,683
Less: accumulated depreciation	(<u>1,150,027</u>)	(<u>1,092,341</u>)
	<u>\$ 2,963,200</u>	<u>\$ 3,268,342</u>

During fiscal 2010 and 2009, the School incurred interest on its outstanding debt (See Note 7) of \$282,001 and \$184,665, respectively. No interest was capitalized in either year as construction was complete and the building was being fully utilized. At June 30, 2010 and 2009, capitalized interest amounted to \$310,214. This has been included in the cost of the administration building at June 30, 2010 and 2009, and is being depreciated over the life of the building.

During February 2010, a fire broke out in one of the buildings, destroying approximately 30% of the building, classrooms and its contents. The cost of repairs and resulting settlement of \$369,118 was greater than the net book value of the damaged building resulting in the extraordinary gain of \$99,622 and is reflected as an extraordinary gain on the statements of activities.

During fiscal 2009, building construction having a net book value of \$203,589 was deemed to have been impaired due to the cancellation of the construction project and was written off as impairment loss. Impairment loss is included with depreciation expense on the statements of functional expenses.

During 2002, the School purchased equipment with federal Public Charter Schools Program grant funds. Pursuant to the contract, the New York State Education Department has the right to reclaim equipment purchased with these funds if the program in conjunction with which they are used is terminated. These assets were fully depreciated as of June 30, 2010 and 2009.

NOTE 6 - ACCOUNTS AND GRANTS RECEIVABLE

Accounts receivable consists of tuition receivable from various Long Island-based public school districts. Of the tuition receivable, 13% is due from William Floyd Union Free School District, 13% is due from Sachem Union Free School District, 70% is due from South Country Central School District, and the remaining 4% is from other various school districts as of June 30, 2010. The School has the ability to petition NYSED for monies overdue from the various school districts.

RIVERHEAD CHARTER SCHOOL, INC.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

NOTE 6 - ACCOUNTS AND GRANTS RECEIVABLE (continued)

The School uses an allowance method to determine uncollectible accounts and grants receivable. The allowance for doubtful accounts is based primarily on the School's collection efforts and management's analysis of specific outstanding balances. The School does not impose interest or finance charges on overdue receivable balances. Collectability is assessed on an individual account basis, and uncollectible accounts are written off against the allowance after approval by the School Board. As of June 30, 2010, accounts receivable included a balance of approximately \$63,000 which is due from Rocky Point Union Free School District. Rocky Point Union Free School District is disputing the balance and has not paid as of June 30, 2010. As such, the School has set up an allowance for doubtful accounts for the full receivable as the School believes it will not collect the balance from Rocky Point Union Free School District.

Furthermore, grants receivable of \$111,078 and \$182,516 at June 30, 2010 and 2009, respectively, were due from NYSED for reimbursable expenses incurred before year-end. All amounts have been deemed collectible at year-end by management.

NOTE 7 - GRANTOR RESTRICTIONS

Financial awards from governmental entities in the form of grants are subject to special audit. Such audits could result in claims against the School for disallowed costs or noncompliance with grantor restrictions. No provision has been made for any liabilities that may arise from such audits since the amounts, if any, cannot be determined at this date.

NYSED requires all charter schools to maintain \$75,000 in a separate account to cover the cost of a potential closure should the School's charter not be renewed. This amount has to be maintained even when the Charter is renewed and has accordingly been reflected as restricted cash on the School's statements of financial position at June 30, 2010 and 2009.

NOTE 8 - LITIGATION

The School is involved in one legal claim in the ordinary course of business. Management does not believe that any such claims would have a material adverse effect on the School's financial position, results of operations, or liquidity.

OTHER FINANCIAL INFORMATION