

**URBAN CHOICE CHARTER SCHOOL**

**Financial Statements  
as of June 30, 2011  
Together with  
Independent Auditors' Report**

**Bonadio & Co., LLP**  
Certified Public Accountants

# URBAN CHOICE CHARTER SCHOOL

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## INDEPENDENT AUDITORS' REPORT

October 27, 2011

To the Board of Trustees of  
Urban Choice Charter School:

We have audited the accompanying statement of financial position of Urban Choice Charter School (the School) (a New York not-for-profit corporation) as of June 30, 2011, and the related statements of activities and change in net assets, 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 2010 financial statements and, in our report dated October 26, 2010, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States 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 Urban Choice Charter School as of June 30, 2011, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 27, 2011 on our consideration of the School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and 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.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects in relation to the basic financial statements taken as a whole.

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# URBAN CHOICE CHARTER SCHOOL

## STATEMENT OF FINANCIAL POSITION

JUNE 30, 2011

(With Comparative Totals for 2010)

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	<u>2011</u>	<u>2010</u>
<b>ASSETS</b>		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 1,421,390	\$ 749,336
Grants receivable	198,798	169,018
Public school districts receivable	5,332	48,934
Prepaid expenses	<u>8,006</u>	<u>62,545</u>
Total current assets	1,633,526	1,029,833
SECURITY DEPOSIT	35,000	35,000
DESIGNATED CASH	76,596	76,443
PROPERTY AND EQUIPMENT, net	<u>810,590</u>	<u>910,957</u>
	<u>\$ 2,555,712</u>	<u>\$ 2,052,233</u>
<b>LIABILITIES AND NET ASSETS</b>		
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	\$ 378,034	\$ 357,838
Deferred revenue	<u>9,747</u>	<u>-</u>
Total current liabilities	387,781	357,838
ACCRUED RENT	<u>127,652</u>	<u>116,470</u>
Total liabilities	515,433	474,308
NET ASSETS	<u>2,040,279</u>	<u>1,577,925</u>
	<u>\$ 2,555,712</u>	<u>\$ 2,052,233</u>

The accompanying notes are an integral part of these statements.

## URBAN CHOICE CHARTER SCHOOL

### STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS

FOR THE YEAR ENDED JUNE 30, 2011

(With Comparative Totals for 2010)

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	<u>2011</u>	<u>2010</u>
OPERATING REVENUE:		
Public school district -		
Resident student enrollment	\$ 4,783,416	\$ 4,215,275
Students with disabilities	125,856	186,103
Federal grants	395,968	399,617
State grants	22,500	-
Cafeteria	204,489	205,824
Contributions	3,262	10,164
Interest	1,978	2,390
Other	16,223	20,019
	<u>5,553,692</u>	<u>5,039,392</u>
OPERATING EXPENSES:		
Program -		
Regular education	3,462,222	3,391,384
Other	636,546	701,949
	<u>4,098,768</u>	<u>4,093,333</u>
Management and general	<u>992,570</u>	<u>801,857</u>
	<u>5,091,338</u>	<u>4,895,190</u>
CHANGE IN NET ASSETS	462,354	144,202
NET ASSETS - beginning of year	<u>1,577,925</u>	<u>1,433,723</u>
NET ASSETS - end of year	<u>\$ 2,040,279</u>	<u>\$ 1,577,925</u>

The accompanying notes are an integral part of these statements.

# URBAN CHOICE CHARTER SCHOOL

## STATEMENT OF FUNCTIONAL EXPENSES FOR THE YEAR ENDED JUNE 30, 2011 (With Comparative Totals for 2010)

	Program			Management and General	Total	
	Regular Education	Other	Total		2011	2010
Salaries:						
Faculty and administration	\$ 2,244,944	\$ 257,058	\$ 2,502,002	\$ 548,428	\$ 3,050,430	\$ 2,930,021
Cafeteria	-	92,593	92,593	-	92,593	95,518
Employee benefits and payroll taxes	500,602	76,472	577,074	270,942	848,016	797,207
Occupancy	265,712	28,722	294,434	14,537	308,971	312,710
Food and supplies	-	175,028	175,028	-	175,028	187,951
Depreciation and amortization	130,494	-	130,494	-	130,494	135,131
Travel	64,469	-	64,469	3,081	67,550	64,816
Contracted services	30,102	3,997	34,099	32,008	66,107	41,966
Instructional supplies	57,754	-	57,754	-	57,754	70,925
Purchased services	44,742	-	44,742	-	44,742	18,839
Professional fees	-	-	-	39,243	39,243	26,032
Equipment purchase and rental	36,563	-	36,563	1,012	37,575	45,668
Staff development	18,171	-	18,171	18,984	37,155	21,301
Repairs and maintenance	24,083	2,676	26,759	1,408	28,167	35,916
Marketing	7,357	-	7,357	17,689	25,046	25,965
Office supplies	1,670	-	1,670	20,215	21,885	19,840
Special activities	18,110	-	18,110	1,088	19,198	25,924
Telephone	11,010	-	11,010	579	11,589	11,307
Postage	-	-	-	11,152	11,152	6,987
Insurance	-	-	-	8,826	8,826	9,175
Other	6,439	-	6,439	3,378	9,817	11,991
	<u>\$ 3,462,222</u>	<u>\$ 636,546</u>	<u>\$ 4,098,768</u>	<u>\$ 992,570</u>	<u>\$ 5,091,338</u>	<u>\$ 4,895,190</u>

The accompanying notes are an integral part of these statements.

# URBAN CHOICE CHARTER SCHOOL

## STATEMENT OF CASH FLOWS FOR THE YEAR ENDED JUNE 30, 2011 (With Comparative Totals for 2010)

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	<u>2011</u>	<u>2010</u>
CASH FLOW FROM OPERATING ACTIVITIES:		
Revenue from school districts	\$ 4,952,874	\$ 4,396,224
Grant receipts	398,435	424,001
Cafeteria	204,489	205,824
Other receipts	21,463	32,573
Payments to charter school personnel	(3,987,604)	(3,574,018)
Payments to vendors for goods and services	<u>(887,323)</u>	<u>(969,052)</u>
Net cash flow from operating activities	<u>702,334</u>	<u>515,552</u>
CASH FLOW FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(30,127)	(139,486)
Change in designated cash	<u>(153)</u>	<u>(153)</u>
Net cash flow from investing activities	<u>(30,280)</u>	<u>(139,639)</u>
CHANGE IN CASH AND EQUIVALENTS	672,054	375,913
CASH AND CASH EQUIVALENTS - beginning of year	<u>749,336</u>	<u>373,423</u>
CASH AND CASH EQUIVALENTS - end of year	<u>\$ 1,421,390</u>	<u>\$ 749,336</u>
RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH FLOW FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 462,354	\$ 144,202
Adjustment to reconcile change in net assets to net cash flow from operating activities:		
Depreciation and amortization	130,494	135,131
Changes in:		
Grants receivable	(29,780)	24,384
Public school districts receivable	43,602	(5,154)
Prepaid expenses	54,539	(48,629)
Accounts payable and accrued expenses	20,196	248,532
Deferred revenue	9,747	-
Accrued rent	<u>11,182</u>	<u>17,086</u>
Net cash flow from operating activities	<u>\$ 702,334</u>	<u>\$ 515,552</u>

The accompanying notes are an integral part of these statements.

# URBAN CHOICE CHARTER SCHOOL

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011

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### 1. THE SCHOOL

Urban Choice Charter School (the School) is an independent public school established under the provisions of the New York State Charter School Act of 1998, enacted as Article 56 of the Education Law. It is the School's mission to provide students in Rochester, New York with a safe, supportive, and intellectually engaging educational environment. The central philosophy of the School is that strong student-teacher relationships are essential to student motivation and achievement. The School is designed to strengthen these bonds and assist students in overcoming the demographic destiny of poverty and exceed state achievement standards.

The School's initial charter was effective through January 2010. In 2010, the School's Charter was renewed by the Board of Regents of the New York State Education Department (NYSED) through July 2014.

The 2010-2011 school year represents the School's seventh year of operation. During this academic year, the School is providing educational instruction to students in kindergarten through eighth grade. The School is seeking approval to add grades nine through twelve. If approved, additional grades will be added in each subsequent year starting with ninth grade in the 2012-2013 school year and ending with the twelfth grade for the 2015-2016 school year.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### **Basis of Accounting**

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

#### **Financial Reporting**

At June 30, 2011 and 2010, all of the School's net assets were unrestricted.

#### **Revenue Recognition**

The School records public school district revenue on a per student basis at rates established by New York State for the school district in which the student resides. Final determination of the revenue earned by the School is subject to review by New York State. Provision is made in the financial statements for anticipated adjustments that may result from such reviews. Differences between amounts provided and final settlements are included in the statement of activities and change in net assets in the year of settlement.

Grant revenue is recognized as the related costs are incurred. Amounts received in advance of incurring the related costs, if any, are reported as deferred revenue.

#### **Program Services**

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

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### **Cash and Cash Equivalents**

Cash and cash equivalents include bank demand deposit and money market accounts with an original maturity of three months or less at the time of purchase. The bank accounts may, at times, exceed federally insured limits. The money market accounts are not insured. The School has not experienced any losses in these accounts and believes it is not exposed to any significant credit risk with respect to cash and cash equivalents.

### **Designated Cash**

In accordance with NYSED regulations, the School is required to maintain funds to pay for expenses associated with the potential termination of the School or non-renewal of the School's charter. At June 30, 2011 and 2010, the School had designated funds totaling \$76,596 and \$76,443, respectively, to satisfy this requirement.

### **Grants and Public School Districts Receivable**

Amounts earned, but not collected at year-end, are recorded as receivables. The School records an allowance for doubtful accounts based on historical collection experience and a review of specific amounts outstanding. Accounts are written off against the allowance when uncollectibility becomes known. It was determined that an allowance for doubtful accounts was not required at June 30, 2011 or 2010.

### **Property and Equipment**

Property and equipment is recorded at cost or fair value at the date of donation. It is the School's policy to capitalize all additions greater than \$2,000 with a useful life in excess of one year. Depreciation and amortization is provided using the straight-line method over the shorter of estimated useful lives or remaining lease term of the related assets that range from three to twelve years.

### **Donated Services**

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

### **Comparative Information**

The financial statements include certain prior year summarized comparative information in total, but not by functional expense classifications. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the School's financial statements for the year ended June 30, 2010, from which the summarized information was derived.

### **Income Taxes**

The School is exempt from income taxes as an organization qualified under Section 501(c)(3) of the Internal Revenue Code. The School has also been classified by the Internal Revenue Service as an entity that is not a private foundation.

For tax-exempt entities, their tax-exempt status itself is deemed to be an uncertainty, since events could occur to jeopardize their tax-exempt status. As of June 30, 2011 and 2010, the School does not have a liability for unrecognized tax benefits. The School files informational returns in the U.S. federal jurisdiction. The School is no longer subject to U.S. federal return examinations by tax authorities for fiscal years through 2007.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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.

### Reclassifications

Certain reclassifications have been made in the 2010 statements to conform to the current year presentation.

## 3. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at June 30:

	<u>2011</u>	<u>2010</u>
Leasehold improvements	\$ 1,083,069	\$ 1,083,069
Furniture and equipment	<u>203,930</u>	<u>173,803</u>
	1,286,999	1,256,872
Less: Accumulated depreciation and amortization	<u>(476,409)</u>	<u>(345,915)</u>
	<u>\$ 810,590</u>	<u>\$ 910,957</u>

## 4. LINES-OF-CREDIT

The School has a \$500,000 line-of-credit agreement with a bank that is renewable on an annual basis. Amounts borrowed are collateralized by a depository account at the bank and bear interest at the prime rate less .25% (3.00% at June 30, 2011). There were no outstanding amounts at June 30, 2011 and 2010.

The School also has a \$25,000 line-of-credit agreement with a bank. Amounts borrowed bear interest at the prime rate plus 1% (4.25% at June 30, 2011). There were no outstanding amounts at June 30, 2011 and 2010.

## 5. RETIREMENT PLAN

The School sponsors a tax sheltered annuity 403(b) retirement savings plan (the Plan) for all employees. Employees are eligible to participate if they are at least 21 years of age and have completed at least 500 hours of service annually. The School will match 3% of the employees' contributions to the Plan. The School recognized retirement plan expense related to its contributions to the Plan of approximately \$62,000 and \$61,000 during the years ended June 30, 2011 and 2010, respectively.

**6. COMMITMENT**

The School has an operating lease agreement for its facilities through July 2015. Future minimum rental payments under terms of this agreement are as follows for the years ending June 30:

2012	\$	208,956
2013		239,134
2014		263,904
2015		<u>271,824</u>
	\$	<u>983,818</u>

Rent expense recognized under the terms of this agreement was approximately \$214,000 for the years ended June 30, 2011 and 2010. The School has recorded accrued rent of \$127,652 and \$116,470 at June 30, 2011 and 2010, respectively, related to the difference between the amount recognized as expense and the amount paid.

**7. CONTINGENCIES**

**Legal Proceedings**

The School has been named as a party in legal proceedings brought against it and other parties. The School's management has reviewed these matters with legal counsel and in its opinion, these actions are defensible insofar as the School is concerned and possible settlement of these matters should have no material effect on the School's financial position or its change in net assets.

**8. SUBSEQUENT EVENTS**

Subsequent events have been evaluated through October 27, 2011, which is the date the financial statements were available to be issued.

**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**

October 27, 2011

To the Board of Trustees of  
Urban Choice Charter School:

We have audited the financial statements of Urban Choice Charter School (the School) as of and for the year ended June 30, 2011, and have issued our report thereon dated October 27, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States 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**

Management of Urban Choice Charter School is responsible for establishing and maintaining effective 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness.

*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. We consider deficiency 2011-01 described in the accompanying schedule of findings and questioned costs to be a material weakness.

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**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**

(Continued)

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

We noted certain matters that we reported to management of the School in a separate letter dated October 2011.

The School's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the School's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Board of Trustees, and others within Urban Choice Charter School 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.

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH  
REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL  
EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL  
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

October 27, 2011

To the Board of Trustees of  
Urban Choice Charter School:

**Compliance**

We have audited Urban Choice Charter School's (the School) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the School's major federal programs for the year ended June 30, 2011. The School's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the School's management. Our responsibility is to express an opinion on the School's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the School's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the School's compliance with those requirements.

In our opinion, the School complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 2011-02.

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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**  
(Continued)

**Internal Control Over Compliance**

Management of the School is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the School's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the School's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

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

The School's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the School's response and, accordingly, we express no opinion on the response.

This report is intended solely for the information and use of management, the Board of Trustees, and others within Urban Choice Charter School 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.

**URBAN CHOICE CHARTER SCHOOL**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2011**

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<u>Federal Grantor/ Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Contract/ Grantor Number</u>	<u>Expenditures</u>
U.S. Department of Education:			
Passed through the New York State Education Department -			
Title I Grants to Local Educational Agencies	84.010	0021114316	\$ 150,052
Title I Grants to Local Educational Agencies	84.010	0021104316	<u>99,658</u>
			<u>249,710</u>
Title I Grants to Local Educational Agencies, Recovery Act	84.389	5021114316	43,417
Title I Grants to Local Educational Agencies, Recovery Act	84.389	5021104316	<u>7,825</u>
			<u>51,242</u>
Improving Teacher Quality State Grants	84.367	0147114316	25,632
Special Education - Grants to States (IDEA, Part B)	84.027	N/A	33,601
Special Education - Grants to States (IDEA, Part B), Recovery Act	84.391	N/A	18,269
U.S. Department of Agriculture:			
Passed through the New York State Education Department -			
National School Lunch Program, Recovery Act	10.555	N/A	128,058
School Breakfast Program	10.553	N/A	<u>60,218</u>
			<u>\$ 566,730</u>

## **URBAN CHOICE CHARTER SCHOOL**

### **NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2011**

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#### **1. GENERAL**

The accompanying schedule of expenditures of federal awards presents the activity of all federal award programs of Urban Choice Charter School. The schedule includes expenditures of federal awards received directly from federal agencies, as well as federal awards passed through other organizations.

#### **2. BASIS OF ACCOUNTING**

The accompanying schedule of expenditures of federal awards has been prepared in conformity with accounting principles generally accepted in the United States.

Amounts included in the accompanying schedule of expenditures of federal awards are actual expenditures for the year ended June 30, 2011. Differences between amounts included in the accompanying schedule of expenditures of federal awards and amounts reported to funding agencies for these programs result from report timing.

# URBAN CHOICE CHARTER SCHOOL

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2011

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### A. SUMMARY OF AUDITORS' RESULTS

1. The auditors' report expresses an unqualified opinion on the financial statements of Urban Choice Charter School (the School).
2. One significant deficiency relating to the audit of the financial statements is reported in the 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*. This deficiency is also reported as a material weakness.
3. No instances of noncompliance material to the financial statements of the School, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. No significant deficiencies related to the audit of the major federal award programs are reported in the Independent Auditors' Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133.
5. The auditors' report on compliance for the major federal award programs for the School expresses an unqualified opinion.
6. Audit findings that are required to be reported in accordance with Sections 501(a) of OMB Circular A-133 are reported in this Schedule.
7. The programs tested as major programs were:
  - Title I, Part A Cluster
    - CFDA No. 84.010 - Title I Grants to Local Educational Agencies
    - CFDA No. 84.389 - Title I, Grants to Local Educational Agencies, Recovery Act
  - Child Nutrition Cluster
    - CFDA No. 10.553 - School Breakfast Program
    - CFDA No. 10.555 - National School Lunch Program, Recovery Act
8. The threshold for distinguishing Types A and B programs was \$300,000.
9. The School was determined not to be a low-risk auditee.

## **B. FINDINGS - FINANCIAL STATEMENT AUDIT**

### **2011-01 Payroll Accrual**

Condition - The School did not properly record the payroll accrual related to the final pay period of June 2011.

Criteria - Generally accepted accounting principles (GAAP) require that payroll costs be accrued for in the year that the costs have been incurred, if they remain unpaid at year-end.

Cause - There was no formal procedure in place to verify that payroll accruals were correctly calculated and posted to the general ledger.

Effect - An audit adjustment was proposed in order to properly state accrued payroll at June 30, 2011.

Recommendation - We recommend the School review payroll and related accruals at year end to ensure they are properly stated.

Management Response - Management agrees with the above recommendation and will develop procedures to review all accruals at year end.

## **C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAM AUDIT**

### **2011-02 Verification Process for Child Nutrition Cluster**

Condition - The School receives federal funding under the Child Nutrition Cluster to provide free and reduced meals to eligible students. The School's grant agreement related to this program requires the School to verify no more or less than 3% of all applications that are on file as of October 1, 2010. However, the School verified 3% of the applications that were on file as of a date subsequent to October 1, 2010 which resulted in the incorrect number of applications verified.

Criteria - The School must verify no more or less than three percent of applications received for free and reduced priced meals that are on file as of October 1, 2010.

Cause - The School determined the amount of applications to be verified based on the applications on file at a date subsequent to October 1, 2010.

Effect - The School verified one application greater than the amount calculated as three percent of applications on file as of October 1, 2010.

Recommendation - We recommend that the School develop procedures that segregate the applications that are on file as of October 1 in an effort to ensure that the correct number of applications are verified.

Management Response - Management agrees with the above recommendation and the verification process will be reviewed by the CEO, Director of Business and Finance, and associated office staff. The process will be codified so that specific dates and expectations are aligned and understood. The resulting document will be placed in the Food Service binder and staff associated with the process will "sign off" that they understand the process, corresponding dates and requirements.