

COMMUNITY ROOTS CHARTER SCHOOL  
(A Not-For-Profit Corporation)

FINANCIAL STATEMENTS

JUNE 30, 2009 AND 2008

COMMUNITY ROOTS CHARTER SCHOOL  
(A Not-For-Profit Corporation)  
FINANCIAL STATEMENTS  
JUNE 30, 2009 AND 2008

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INDEPENDENT AUDITORS' REPORT

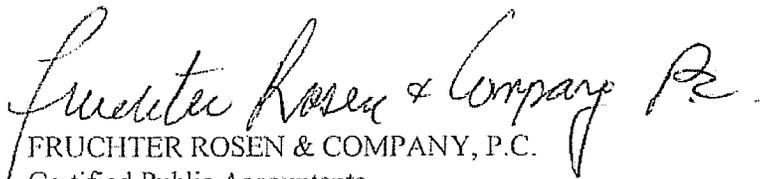
TO THE BOARD OF TRUSTEES OF  
COMMUNITY ROOTS CHARTER SCHOOL

We have audited the accompanying statements of financial position of Community Roots Charter School (the "School") (a not-for-profit corporation) as of June 30, 2009 and 2008, and the related statements of activities, and cash flows for the years then ended. These financial statements are the responsibility of the School's management. Our responsibility is to express an opinion on these financial statements based on our audits. The prior period summarized comparative information has been derived from the School's 2008 financial statements and, in our report dated October 17, 2008, we expressed an unqualified opinion on those financial statements.

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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits 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 the School as of June 30, 2009 and 2008, 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 26, 2009 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 on 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 read in conjunction with this report in considering the results of our audit.

  
FRUCHTER ROSEN & COMPANY, P.C.  
Certified Public Accountants

New York, New York  
October 26, 2009

COMMUNITY ROOTS CHARTER SCHOOL  
(A Not-For-Profit Corporation)  
STATEMENTS OF FINANCIAL POSITION  
JUNE 30,

	2009	2008
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 1,333,282	\$ 632,232
Grants receivable	36,390	246,037
Prepaid expenses	22,294	10,761
Total current assets	1,391,966	889,030
Property and equipment, net of accumulated depreciation and amortization of \$82,460 and \$37,159, respectively	128,841	111,106
Restricted cash	70,844	25,314
<b>TOTAL ASSETS</b>	<b>\$ 1,591,651</b>	<b>\$ 1,025,450</b>
 <b>LIABILITIES AND UNRESTRICTED NET ASSETS</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 51,920	\$ 77,862
Accrued payroll and payroll taxes	246,615	165,742
Refundable advances	1,616	-
Total current liabilities	300,151	243,604
Unrestricted net assets	1,291,500	781,846
<b>TOTAL LIABILITIES AND UNRESTRICTED NET ASSETS</b>	<b>\$ 1,591,651</b>	<b>\$ 1,025,450</b>

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

COMMUNITY ROOTS CHARTER SCHOOL  
(A Not-For-Profit Corporation)  
STATEMENTS OF ACTIVITIES  
FOR THE YEARS ENDED JUNE 30,

	2009	2008
Revenue and support:		
State and local per pupil operating revenue	\$ 2,758,435	\$ 1,885,510
Federal grants	206,468	229,502
State and city grants	34,310	30,203
Contributions and grants	95,855	148,283
Donated services	15,978	-
Interest and other income	32,956	18,763
Special events, net of expenses of \$25,415 and \$12,728, respectively	54,861	68,467
Total revenue and support	3,198,863	2,380,728
Expenses:		
Program services		
Regular education	2,013,013	1,208,542
Special education	236,409	352,245
Supplemental education	136,270	112,654
Total program services	2,385,692	1,673,441
Supporting services		
Management and general	298,215	236,784
Fundraising	5,302	16,534
Total expenses	2,689,209	1,926,759
Change in unrestricted net assets	509,654	453,969
Unrestricted net assets - beginning of year	781,846	327,877
Unrestricted net assets - end of year	\$ 1,291,500	\$ 781,846

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

COMMUNITY ROOTS CHARTER SCHOOL  
(A Not-For-Profit Corporation)  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED JUNE 30,

	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in unrestricted net assets	\$ 509,654	\$ 453,969
Adjustments to reconcile increase in unrestricted net assets to net cash provided by operating activities:		
Depreciation and amortization	45,301	31,005
Changes in certain assets and liabilities:		
Decrease (Increase) in grants receivables	209,647	(69,831)
(Increase) in restricted cash	(45,530)	(25,314)
(Increase) in prepaid expense	(11,533)	(2,082)
(Decrease) Increase in accounts payable and accrued expenses	(25,942)	134,467
Increase (Decrease) in accrued payroll and payroll taxes	80,873	(67,512)
Increase (Decrease) in refundable advances	1,616	(5,096)
NET CASH PROVIDED BY OPERATING ACTIVITIES	764,086	449,606
CASH FLOWS FROM INVESTING ACTIVITY		
Purchase of property and equipment	(63,036)	(34,620)
NET INCREASE IN CASH AND CASH EQUIVALENTS	701,050	414,986
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	632,232	217,246
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 1,333,282	\$ 632,232

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

COMMUNITY ROOTS CHARTER SCHOOL  
(A Not-For-Profit Corporation)  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2009 AND 2008

NOTE 1 - PRINCIPAL BUSINESS ACTIVITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization

Community Roots Charter School (the "School") is a New York State, not-for-profit educational corporation that was incorporated on December 9, 2005 to operate a Charter School pursuant to Article 56 of the Education Law of the State of New York. The School was granted a provisional charter on December 9, 2005 valid for a term of five years and renewable upon expiration by the Board of Regents of the University of the State of New York. The School is a rigorous K-5 learning community where learning is embedded in meaningful real world context where children are deliberately taught to see the connection between school and the world. The School provided education to approximately 203 students in kindergarten through third grade in the 2008-2009 academic year.

The School shares space with a New York City public school beginning in September 2006. The School is not responsible for rent, utilities, custodial services, maintenance and school safety services other than security related to the School's programs that take place outside the district's school day.

Food and Transportation Services

The New York City Department of Education provides free lunches and transportation directly to some of the School's students. Such costs are not included in these financial statements. The School covers a portion of the cost of lunches for children not entitled to the free lunches.

Tax Status

The School is exempt from Federal income tax under Section 501(a) of the Internal Revenue Code as an organization described in Section 501(c)(3) and a similar provision under New York State income tax laws. The School has also been classified as an entity that is not a private foundation within the meaning of Section 509(a) and qualifies for deductible contributions as provided in section 170(b)(1)(A)(ii).

Basis of Presentation

Financial statement presentation follows the requirements of 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 net assets classifications are described as follows:

Unrestricted

Net assets of the School whose use has not been restricted by an outside donor or by law. They are available for any use in carrying out the operations of the School.

COMMUNITY ROOTS CHARTER SCHOOL  
(A Not-For-Profit Corporation)  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2009 AND 2008

NOTE 1 - PRINCIPAL BUSINESS ACTIVITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation (Continued)

*Temporarily Restricted*

Net assets of the School whose use has been limited by donor-imposed stipulations that either expire with the passage of time or can be fulfilled and removed by actions of the School. When such stipulations end or are fulfilled, such temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities and changes in net assets, as net assets released from restrictions

*Permanently Restricted*

Net assets of the School whose use has been permanently limited by donor-imposed restrictions. Such assets include contributions required to be invested in perpetuity, the income from which is available to support charitable purposes designated by the donors.

The School has no temporarily or permanently restricted net assets at June 30, 2009 and 2008.

Revenue and Support

Contributions are recognized when the donor makes a promise to give to the School that is, in substance, unconditional. Grants and other contributions of cash are reported as temporarily restricted support if they are received with donor stipulations. Restricted contributions and grants that are made to support the School's current year activities are recorded as unrestricted revenue. Contributions of assets other than cash are recorded at their estimated fair value.

Revenue from the state and local governments resulting from the School's charter status and based on the number of students enrolled is recorded when services are performed in accordance with the charter agreement. Federal and other state and local funds are recorded when expenditures are incurred and billable to the government agency.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the 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. Accordingly, actual results could differ from those estimates.

Cash and Cash Equivalents

For the purpose 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.

COMMUNITY ROOTS CHARTER SCHOOL  
(A Not-For-Profit Corporation)  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2009 AND 2008

NOTE 1 - PRINCIPAL BUSINESS ACTIVITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Concentration of Credit Risk

Financial instruments which potentially subject the School to concentrations of credit risk are cash and cash equivalents. The School places its cash and cash equivalents on deposit in what it believes to be highly credited financial institutions. Cash balances may exceed the FDIC insured levels of \$250,000 per institution at various times during the year. The School believes that there is little risk in any losses and has not experienced any losses in such accounts.

Restricted Cash

Under the provisions of its charter, the School established an escrow account to pay for legal and audit expenses that would be associated with a dissolution should it occur.

Property and Equipment

Purchased property and equipment are recorded at cost. Maintenance and repairs are expensed as incurred. All property and equipment purchased with government funding, whereas the government agency retains legal title to the long lived asset is expensed as incurred. Depreciation and amortization is provided on the straight line method over the estimated useful lives as follows:

Equipment	3-5 years
Furniture and fixtures	7 years
Software	3 years

Refundable Advances

The School records grant revenue as a refundable advance until it is expended for the purpose of the grant, at which time it is recognized as revenue.

Reclassifications

Certain 2008 accounts have been reclassified to conform to the 2009 financial statement presentation. The reclassifications have no effect on 2008 total assets, liabilities, net assets and changes in net assets.

Comparative Financial Information

The accompanying statements of activities and functional expenses are presented with summarized comparative information. Such prior year information is not presented by net asset class in the statement of activities or by functional category in the schedule of functional expenses. Accordingly, such information should be read in conjunction with the School's 2008 financial statements from which the summarized information was derived.

COMMUNITY ROOTS CHARTER SCHOOL  
(A Not-For-Profit Corporation)  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2009 AND 2008

NOTE 2 - GRANTS RECEIVABLE

Grants receivable consisted of federal, state and city entitlements. The School anticipates the receivable being collected within one year.

NOTE 3 - PROPERTY AND EQUIPMENT

Property and equipment consist of the following at June 30,:

	2009	2008
Equipment	\$ 116,530	\$ 72,168
Furniture and fixtures	73,880	49,456
Software	20,891	26,641
	211,301	148,265
Less: Accumulated depreciation and amortization	82,460	37,159
	\$ 128,841	\$ 111,106

Depreciation and amortization expense was \$45,301 and \$31,005 for the years ended June 30, 2009 and 2008, respectively.

NOTE 4 - REVENUE CONCENTRATION

The School receives a substantial portion of its support and revenue from the New York City Department of Education. If the charter school laws were modified, reducing or eliminating these revenues, the School's finances could be materially adversely affected.

NOTE 5 - CONTINGENCY

Certain grants and contracts may be subject to audit by the funding sources. Such audits might result in disallowances of costs submitted for reimbursements. Management is of the opinion that such cost disallowances, if any, will not have a material effect on the accompanying financial statements. Accordingly, no amounts have been provided in the accompanying financial statements for such potential claims.

NOTE 6 - FUNCTIONAL ALLOCATION OF EXPENSE

Directly identifiable expenses are charged to programs and supporting services. Expenses related to more than one function are charged to programs and supporting services on the basis of periodic time and expense studies. Management and general expense includes those expenses that are not directly identifiable with any other specific function, but provide for the overall support and direction of the School.

COMMUNITY ROOTS CHARTER SCHOOL  
(A Not-For-Profit Corporation)  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2009 AND 2008

NOTE 7 - DONATED SERVICES

Donated services are recognized as contributions in accordance with SFAS No. 116, "Accounts for Contributions Received and Contributions Made," if the services (a) create or enhance non-financial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Organization.

Individuals have provided legal services to the School at no charge. The value of these services meets the criteria for recognition in the financial statements and is recorded at fair value. For the years ended June 30, 2009 and 2008, the value of such donated services amounted to \$15,978 and \$-0-, respectively. The value is allocated between program services, management and general expenses in the accompanying statements of activities.

NOTE 8 - RETIREMENT PLAN

The School maintains a pension plan qualified under Internal Revenue Code 403(b), for the benefit of its eligible employees. Under the plan, the School matched employee contributions up to 5% of annual compensation. Employee match for the years ended June 30, 2009 and 2008 amounted to \$34,699 and \$13,542 respectively.

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INDEPENDENT AUDITORS' REPORT  
ON ADDITIONAL INFORMATION

TO THE BOARD OF TRUSTEES OF  
COMMUNITY ROOTS CHARTER SCHOOL

Our report on our audits of the basic financial statements of Community Roots Charter School (a not-for-profit corporation) for June 30, 2009 and 2008, appears on Page 1. We conducted our audits in accordance with auditing standards generally accepted in the United States of America for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedule of functional expenses is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements as a whole.

  
FRUCHTER ROSEN & COMPANY, P.C.  
Certified Public Accountants

New York, New York  
October 26, 2009

COMMUNITY ROOTS CHARTER SCHOOL  
(A Not-For-Profit Corporation)  
SCHEDULE OF FUNCTIONAL EXPENSES  
FOR THE YEARS ENDED JUNE 30,

2009

	Program Services				Management and		Total	2008
	Regular Education	Special Education	Supplemental Education	Total	General	Fundraising		
Salaries	\$ 1,373,436	\$ 121,412	\$ 67,553	\$ 1,562,401	\$ 214,900	\$ 3,800	\$ 1,781,101	\$ 1,288,231
Employee benefits and payroll taxes	241,828	21,378	11,894	275,100	37,838	669	313,607	230,896
Books	38,503	3,348	-	41,851	-	-	41,851	23,016
Contracted service	-	-	2,580	2,580	-	-	2,580	35,189
Classroom supplies	37,852	3,291	-	41,143	-	-	41,143	13,416
Curriculum supplies	20,555	1,787	-	22,342	-	-	22,342	21,505
Legal fees	7,989	-	-	7,989	7,989	-	15,978	8,300
Audit and accounting fees	-	-	-	-	18,000	-	18,000	17,500
After school consulting	-	-	49,505	49,505	-	-	49,505	-
Educational consulting	20,111	1,749	-	21,860	-	-	21,860	22,650
Technology consulting	9,900	835	-	10,735	1,476	26	12,237	10,368
Professional services	48,087	4,181	-	52,268	-	-	52,268	22,945
Special education services and supplies	-	59,333	-	59,333	-	-	59,333	21,111
Insurance	26,815	2,370	1,319	30,504	4,196	74	34,774	33,245
Professional development	72,259	6,283	-	78,542	-	-	78,542	43,843
Telephone	1,259	111	-	1,370	260	3	1,633	1,915
Food service	5,557	483	-	6,040	-	-	6,040	3,147
Printing, postage and copying	6,432	569	316	7,317	1,006	18	8,341	9,476
Student testing and assessment	4,636	403	-	5,039	-	-	5,039	7,044
Office expenses	8,289	733	408	9,430	1,297	23	10,750	7,332
Dues and subscriptions	1,785	158	88	2,031	279	5	2,315	1,089
Depreciation and amortization	34,932	3,088	1,718	39,738	5,466	97	45,301	31,005
Computer software	5,708	505	281	6,494	893	16	7,403	15,372
Non-capitalized furniture and fixtures	6,186	619	-	6,805	773	155	7,733	3,675
Non-capitalized equipment	15,281	1,528	-	16,809	1,910	382	19,101	16,954
Field trips	13,268	1,154	-	14,422	-	-	14,422	2,432
Fundraising	-	-	-	-	-	-	-	12,740
Miscellaneous	12,345	1,091	608	14,044	1,932	34	16,010	22,363
<b>Total</b>	<b>\$ 2,013,013</b>	<b>\$ 236,409</b>	<b>\$ 136,270</b>	<b>\$ 2,385,692</b>	<b>\$ 298,215</b>	<b>\$ 5,302</b>	<b>\$ 2,689,209</b>	<b>\$ 1,926,759</b>

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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*

TO THE BOARD OF TRUSTEES OF  
COMMUNITY ROOTS CHARTER SCHOOL

We have audited the financial statements of Community Roots Charter School (the "School") as of and for the year ended June 30, 2009, and have issued our report thereon dated October 28, 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 the School's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the School's internal control over financial reporting.

A 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 School'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 School's financial statements that is more than inconsequential will not be prevented or detected by the School'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 School'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 or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

TO THE BOARD OF TRUSTEES OF  
COMMUNITY ROOTS CHARTER SCHOOL

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 were reported to the management of the School in a separate letter October 28, 2009.

This report is intended solely for the information and use of management, the audit committee, 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.

  
FRUCHTER ROSEN & COMPANY, P.C.  
Certified Public Accountants

New York, New York  
October 26, 2009