

PAVE ACADEMY CHARTER SCHOOL

FINANCIAL STATEMENTS

JUNE 30, 2009

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FINANCIAL STATEMENTS
JUNE 30, 2009

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INDEPENDENT AUDITORS' REPORT

TO THE BOARD OF TRUSTEES
PAVE ACADEMY CHARTER SCHOOL

We have audited the accompanying statement of financial position of PAVE Academy Charter School (the "School") (a not-for-profit corporation) as of June 30, 2009 and the related statement of activities, and cash flows for the period from January 15, 2008 (inception) to June 30, 2009. These financial statements are the responsibility of the School's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the School as of June 30, 2009 and the changes in its net assets and its cash flows for the period from January 15, 2008 (inception) to June 30, 2009, 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 August 25, 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
August 25, 2009

PAVE ACADEMY CHARTER SCHOOL
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2009

ASSETS	
Current assets:	
Cash and cash equivalents	\$ 370,362
Grants receivable	33,725
Prepaid expenses and other current assets	7,512
Total current assets	<u>411,599</u>
Other assets:	
Property and equipment, net of accumulated depreciation and amortization of \$47,992	161,557
Restricted cash	25,028
Total other assets	<u>186,585</u>
TOTAL ASSETS	<u><u>\$ 598,184</u></u>
LIABILITIES AND UNRESTRICTED NET ASSETS	
Current liabilities:	
Accounts payable and accrued expenses	\$ 36,396
Accrued payroll	88,013
Deferred revenue	38,536
Total current liabilities	<u>162,945</u>
Unrestricted net assets	<u>435,239</u>
TOTAL LIABILITIES AND UNRESTRICTED NET ASSETS	<u><u>\$ 598,184</u></u>

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

PAVE ACADEMY CHARTER SCHOOL
STATEMENT OF ACTIVITY
FOR THE PERIOD FROM JANUARY 15, 2008 (INCEPTION)
TO JUNE 30, 2009

	Unrestricted	Temporarily Restricted	Total
Revenue and support:			
State and local per pupil operating revenue	\$ 1,207,558	\$ -	\$ 1,207,558
Federal grants	236,809	-	236,809
State and city grants	131,058	-	131,058
Contributions and grants	220,703	214,000	434,703
Donated goods and services	310,784	-	310,784
Interest income	1,535	-	1,535
Loss on disposal of assets	(693)	-	(693)
Net assets released from restrictions - satisfaction of purpose restriction	214,000	(214,000)	-
Total revenue and support	<u>2,321,754</u>	<u>-</u>	<u>2,321,754</u>
Expenses:			
Program services	1,505,019	-	1,505,019
Management and general	381,496	-	381,496
Total expenses	<u>1,886,515</u>	<u>-</u>	<u>1,886,515</u>
Changes in net assets	435,239	-	435,239
Net assets - beginning of period	<u>-</u>	<u>-</u>	<u>-</u>
Net assets - end of period	<u>\$ 435,239</u>	<u>\$ -</u>	<u>\$ 435,239</u>

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

PAVE ACADEMY CHARTER SCHOOL
STATEMENT OF CASH FLOWS
FOR THE PERIOD FROM JANUARY 15, 2008 (INCEPTION)
TO JUNE 30, 2009

CASH FLOWS FROM OPERATING ACTIVITIES:	
Increase in unrestricted net assets	\$ 435,239
Adjustments to reconcile increase in unrestricted net assets to net cash provided by operating activities:	
Depreciation	48,384
Loss on disposal of fixed assets	693
Changes in certain assets and liabilities:	
(Increase) in grants receivable	(33,725)
(Increase) in prepaid expenses and other current assets	(7,512)
(Increase) in restricted cash	(25,028)
Increase in accounts payable and accrued expenses	36,396
Increase in accrued payroll	88,013
Increase in deferred revenue	38,536
NET CASH PROVIDED BY OPERATING ACTIVITIES	580,996
CASH FLOWS FROM INVESTING ACTIVITY:	
Purchase of property and equipment	(210,634)
NET INCREASE IN CASH AND CASH EQUIVALENTS	370,362
CASH AND CASH EQUIVALENTS - BEGINNING OF PERIOD	-
CASH AND CASH EQUIVALENTS - END OF PERIOD	\$ 370,362

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

PAVE ACADEMY CHARTER SCHOOL
FINANCIAL STATEMENTS
JUNE 30, 2009

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

Nature of Organization

PAVE Academy Charter School (the "School") is a New York State, not-for-profit educational corporation that was incorporated on January 15, 2008 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 January 15, 2008 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 will prepare kindergarten to eighth grade students to thrive in competitive high schools and four year colleges. The School will provide the children of Brooklyn with a rigorous academic program and a school community built on the School's core values of Perseverance, Achievement, Vibrance, and Excellent character (PAVE). Classes commenced in Red Hook, Brooklyn, New York, in August 2008 and the School provided education to approximately 88 students in kindergarten and first grades in the 2008-2009 academic year.

The School shares space with a New York City public school beginning in August 2008. 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. The school is in the process of developing its permanent facility through its affiliate, Friends of PAVE Academy Charter School.

Food Services

The New York City Department of Education provides free lunches directly to some of the School's students. Such costs are not included in these financial statements. The School covers the unreimbursed 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:

PAVE ACADEMY CHARTER SCHOOL
FINANCIAL STATEMENTS
JUNE 30, 2009

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

Basis of Presentation (continued)

Unrestricted

Unrestricted net assets of the School are assets whose use has not been restricted by an outside donor or by law. The unrestricted net assets represent the portion of expendable funds that are available for the support of the operations of the School.

Temporarily Restricted

Temporarily restricted net assets are used to differentiate resources, the use of which is restricted by donors or grantors to a specific time or period or for a specific purpose. Temporarily restricted gifts are recorded as additions to temporarily restricted net assets in the period received. When restricted net assets are expended for their stipulated purpose, temporarily restricted net assets become unrestricted net assets and are reported in the statements of activities as net assets released from restrictions.

Permanently Restricted

Permanently restricted net assets are those contributions and other inflows of assets whose use by the School is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled or otherwise removed by actions of the School. The income derived from these permanently restricted funds is usually classified as unrestricted and can be used for the general purpose of the School.

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

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 at the date of donation.

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.

PAVE ACADEMY CHARTER SCHOOL
FINANCIAL STATEMENTS
JUNE 30, 2009

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

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.

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	5 years
Furniture and Fixtures	7 years
Software	3 years

Deferred Revenue

The school records certain government operating revenue as deferred revenue until related services are performed, at which time they are recognized as revenue.

PAVE ACADEMY CHARTER SCHOOL
FINANCIAL STATEMENTS
JUNE 30, 2009

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

RECENT ACCOUNTING PRONOUNCEMENTS

In July 2006, the Financial Accounting Standards Board (the "FASB") issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*- an interpretation of FASB Statement No. 109 ("FIN 48"). FIN 48 prescribes a comprehensive model for recognizing, measuring, presenting and disclosing in the financial statements tax positions taken or expected to be taken on a tax return. If there are changes in net assets as a result of application of FIN 48, these will be accounted for as an adjustment to the opening balance of net assets. Additional disclosures about the amounts of such liabilities will also be required. In 2008, the FASB delayed the effective date of FIN 48 for certain nonpublic enterprises to annual financial statements for fiscal years beginning after December 15, 2008. The School will be required to adapt FIN 48 in its June 30, 2010 financial statements. The adoption of FIN 48 is not expected to have a material impact on the School's financial position, results of operations or cash flows.

The School has adopted FASB No 157, *Fair Value Measurements*, which establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The adoption of FASB 157 does not have a material impact on the School's financial position, change in net assets or cash flows. The School did not maintain any investments in marketable or equity securities at June 30, 2009. There were no investments with readily determinable fair values purchased or received by the School during the period from January 15, 2008 (inception) to June 30, 2009.

NOTE 2 - GRANTS RECEIVABLE

Grants receivable consists of federal, state, and city entitlements. The School expects to collect these receivables within one year.

PAVE ACADEMY CHARTER SCHOOL
FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 3 - PROPERTY AND EQUIPMENT

Computer equipment	\$120,971
Furniture and Fixtures	29,065
Software	<u>59,513</u>
	\$209,549
Less accumulated depreciation	<u>47,992</u>
	<u>\$161,557</u>

During the period from January 15, 2008 (inception) to June 30, 2009, the School disposed of a laptop resulting in a \$693 loss.

Depreciation expense was \$48,384 for the period January 15, 2008 (inception) to June 30, 2009.

NOTE 4 - RELATED PARTY TRANSACTIONS

The School is an affiliate of Friends of PAVE Academy Charter School, (“Friends of PAVE”), a New York State not-for-profit corporation. Friends of PAVE supports the School through financial, fundraising and development efforts. For the period from January 15, 2008 (inception) to June 30, 2009, there were no material transactions between Friends of PAVE and the School.

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 - 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.

PAVE ACADEMY CHARTER SCHOOL
FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 7 - 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.

NOTE 8 - DONATED GOODS AND 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 School. One entity has 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 period from January 15, 2008 (inception) to June 30, 2009, the value of such donated services amounted to \$300,029.

An enrichment program was provided to a School class for one day per week, during the academic year, at no charge. In addition, the School's administration received furniture from a donor at no charge. For the period from January 15, 2008 (inception) to June 30, 2009 the value of such donated facilities and furniture amounted to \$10,755.

The value of these donated goods and services is allocated accordingly between the programs and management and general in the accompanying statement of activities and statement of functional expenses.

NOTE 9 - PENSION PLAN

The School maintains a pension plan qualified under Internal Revenue Code 401(k) for the benefit of its eligible employees. Under the plan, the School provided matching contributions of 2% to the plan. The amount charged to operations for fees and matching contributions to this plan amounted to \$13,144 for the period from January 15, 2008 (inception) to June 30, 2009.

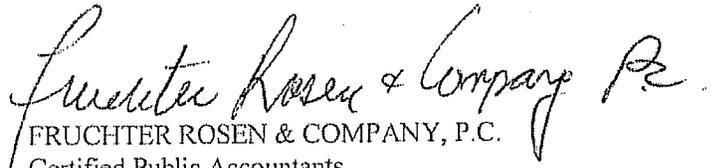
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INDEPENDENT AUDITORS' REPORT
ON ADDITIONAL INFORMATION

TO THE BOARD OF TRUSTEES
PAVE ACADEMY CHARTER SCHOOL

Our report on our audit of the basic financial statements of PAVE Academy Charter School (a not-for-profit corporation) for the period from January 15, 2008 (inception) to June 30, 2009 appears on Page 1. We conducted our audit 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 audit 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
August 25, 2009

PAVE ACADEMY CHARTER SCHOOL
SCHEDULE OF FUNCTIONAL EXPENSES
FOR THE PERIOD FROM JANUARY 15, 2008 (INCEPTION) TO JUNE 30, 2009

	Program Services			Total Program Services	Supporting Services		Total
	Regular Education	Special Education			Management and General		
Salaries and wages	\$ 781,519	\$ 61,797	\$	\$ 843,316	\$	\$ 104,859	\$ 948,175
Employee benefits and payroll taxes	136,756	10,814		147,570		18,349	165,919
Outside services and consulting	51,771	1,150		52,921		69,151	122,072
Instructional materials	88,686	9,854		98,540		-	98,540
Professional developments	46,066	512		46,578		1,861	48,439
Enrichment support	6,885	765		7,650		-	7,650
Student meals	3,276	364		3,640		-	3,640
Classroom and office supplies	16,416	1,824		18,240		9,764	28,004
Legal services-donated	143,078	15,897		158,975		141,054	300,029
Auditing and accounting fees	-	-		-		22,526	22,526
Recruiting and marketing	13,125	1,458		14,583		-	14,583
Insurance	13,915	1,100		15,015		1,867	16,882
Maintenance and repairs	8,278	655		8,933		1,154	10,087
Postage, printing and shipping	-	-		-		2,313	2,313
Staff lunches and team building	5,280	587		5,867		-	5,867
Telephone and internet	10,931	865		11,796		1,467	13,263
Technology	10,928	864		11,792		1,466	13,258
Travel	12,863	1,429		14,292		269	14,561
Depreciation	39,880	3,153		43,033		5,351	48,384
Miscellaneous	2,050	228		2,278		45	2,323
	<u>\$ 1,391,703</u>	<u>\$ 113,316</u>		<u>\$ 1,505,019</u>		<u>\$ 381,496</u>	<u>\$ 1,886,515</u>

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

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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
PAVE ACADEMY CHARTER SCHOOL

We have audited the financial statements of PAVE Academy Charter School (“the School”) as of and for the period from January 15, 2008 (inception) to June 30, 2009, and have issued our report thereon dated August 25, 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.

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TO THE BOARD OF TRUSTEES OF
PAVE ACADEMY CHARTER SCHOOL

Compliance and Other Matters

As part of obtaining reasonable assurance about whether PAVE Academy Charter School 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 dated August 25, 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
August 25, 2009