

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

FINANCIAL STATEMENTS

JUNE 30, 2007

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REPORT OF INDEPENDENT AUDITORS'

TO THE BOARD OF DIRECTORS
COMMUNITY ROOTS CHARTER SCHOOL

We have audited the accompanying statement of financial position of Community Roots Charter School (a not-for-profit corporation) as of June 30, 2007, and the related statements of activities, and cash flows for the period December 9, 2005 (inception) to June 30, 2007. These financial statements are the responsibility of the Community Roots Charter 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 Community Roots Charter School as of June 30, 2007, and the changes in its net assets and its cash flows for the period December 9, 2005 (inception) to June 30, 2007, in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated September 5, 2007 on our consideration of Community Roots Charter School's internal control over financial reporting and on 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 audit.

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

New York, New York
September 5, 2007

COMMUNITY ROOTS CHARTER SCHOOL
(A Not-For-Profit Corporation)
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2007

ASSETS	
Current assets:	
Cash and cash equivalents	\$ 217,246
Grants receivable	176,206
Prepaid expenses	<u>8,679</u>
Total current assets	402,131
Property and equipment, net of accumulated depreciation and amortization of \$6,154	<u>107,490</u>
TOTAL ASSETS	<u>\$ 509,621</u>

LIABILITIES AND UNRESTRICTED NET ASSETS

Current liabilities:	
Accounts payable and accrued expenses	\$ 176,648
Refundable advances	<u>5,096</u>
Total Current Liabilities	181,744
Unrestricted net assets	<u>327,877</u>
TOTAL LIABILITIES AND UNRESTRICTED NET ASSETS	<u>\$ 509,621</u>

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

COMMUNITY ROOTS CHARTER SCHOOL
(A Not-For-Profit Corporation)
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE PERIOD DECEMBER 9, 2005 (INCEPTION) TO JUNE 30, 2007

Revenue and support:	
State and local per pupil operating revenue	\$ 1,020,822
Federal grants	217,414
State and city grants	186,527
Contributions and grants	417,809
Donated services	64,984
Interest and dividends	9,728
Total revenue and Support	<u>1,917,284</u>
Expenses:	
Program services	
Regular education	1,076,586
Special education	195,193
Other programs	46,829
Management and general	255,923
Fundraising	14,876
Total expenses	<u>1,589,407</u>
Change in unrestricted net assets	327,877
Unrestricted net assets – beginning of period	<u>-</u>
Unrestricted net assets - end of period	<u>\$ 327,877</u>

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

COMMUNITY ROOTS CHARTER SCHOOL
(A Not-For-Profit Corporation)
STATEMENT OF CASH FLOWS
FOR THE PERIOD DECEMBER 9, 2005 (INCEPTION) TO JUNE 30, 2007

CASH FLOWS FROM OPERATING ACTIVITIES	
Increase in unrestricted net assets	\$ 327,877
Adjustments to reconcile change in unrestricted net assets to net cash provided by operating activities:	
Loss on disposition of equipment	1,489
Depreciation and amortization	6,514
Changes in certain assets and liabilities:	
(Increase) in grants receivable	(176,206)
(Increase) in prepaid expense	(8,679)
Increase in accounts payable and accrued expenses	176,648
Increase in refundable advances	<u>5,096</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>332,739</u>
 CASH FLOWS FROM INVESTING ACTIVITY	
Purchase of property and equipment	<u>(115,493)</u>
 NET INCREASE IN CASH AND CASH EQUIVALENTS	 217,246
 CASH AND CASH EQUIVALENTS – BEGINNING OF PERIOD	 <u>-</u>
 CASH AND CASH EQUIVALENTS – END OF PERIOD	 <u>\$ 217,246</u>

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

COMMUNITY ROOTS CHARTER SCHOOL
(A Not-For-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

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. Classes commenced in Brooklyn, New York, in September 2006 and the School presently provides education to approximately 150 students in grades Kindergarten to second.

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 Departments 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:

COMMUNITY ROOTS CHARTER SCHOOL
(A Not-For-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

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

Basis of Presentation (continued)

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.

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.

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 that are based on the number of students enrolled is recorded when services are performed. Other federal and state 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.

COMMUNITY ROOTS CHARTER SCHOOL
(A Not-For-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

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

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.

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
Leasehold Improvements	Useful life on released lease

Concentration of Credit Risk

The School places its cash in what it believes to be credit-worthy financial institutions. However, cash balances exceeded FDIC insured levels at various times during the year.

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.

NOTE 2 - GRANTS RECEIVABLE

Grants receivable consisted of federal and city entitlements and grants. The School anticipates the receivable being collected before June 2008.

COMMUNITY ROOTS CHARTER SCHOOL
(A Not-For-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

NOTE 3 - PROPERTY AND EQUIPMENT

Property and equipment consist of the following at June 30, 2007:

Equipment	\$ 49,345
Furniture and fixture	37,658
Software	<u>26,641</u>
	113,644
Less: accumulated depreciation and amortization	<u>6,154</u>
	<u>\$ 107,490</u>

Depreciation and amortization expense was \$6,514 for the period December 9, 2005 (inception) to June 30, 2007.

NOTE 4 - RELATED PARTY TRANSACTIONS

One of the school's board members is also a board member of an organization that provided fiscal agent services to the school. For the period December 9, 2005 (inception) to June 30, 2007, the school incurred \$8,857 of service fees.

NOTE 5 - 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 6 - FUNCTIONAL ALLOCATION OF EXPENSE

The cost of providing the various programs and other activities have been summarized on a functional basis. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

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.

COMMUNITY ROOTS CHARTER SCHOOL
(A Not-For-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

NOTE 7 - DONATED SERVICES (Continued)

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 period December 9, 2005 (inception) to June 30, 2007, the value of such donated services amounted to approximately \$64,984. The entire value is included in program services, management and general expenses in the accompanying statement of activities.

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INDEPENDENT AUDITORS' REPORT
ON ADDITIONAL INFORMATION

TO THE BOARD OF DIRECTORS
COMMUNITY ROOTS CHARTER SCHOOL

Our report on our audit of the basic financial statements of Community Roots Charter School (a not-for-profit corporation) for June 30, 2007, 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 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
September 5, 2007

COMMUNITY ROOTS CHARTER SCHOOL
(A Not-For-Profit Corporation)
SCHEDULE OF FUNCTIONAL EXPENSES
FOR THE PERIOD DECEMBER 9, 2005 (INCEPTION) TO JUNE 30, 2007

	Program Services			Supporting Services			
	Regular Education	Special Education	Supplemental Education	Total Program Service	Management and General	Fundraising	Total Expenses
Salaries and benefits	\$ 730,365	\$ 143,982	\$ 20,937	\$ 895,284	\$ 177,770	\$ 3,757	\$ 1,076,811
Legal fees	32,492	-	-	32,492	32,492	-	64,984
Books	61,693	6,854	-	68,547	-	-	68,547
Contracted services	-	-	24,908	24,908	-	-	24,908
Classroom supplies	33,405	3,712	-	37,117	-	-	37,117
Curriculum supplies	27,483	2,196	-	29,679	-	-	29,679
Audit and accounting fees	-	-	-	-	15,720	-	15,720
Educational consulting	13,604	1,512	-	15,116	-	-	15,116
Technology consulting	13,914	2,866	-	16,780	4,507	-	21,287
Professional services	34,058	2,673	-	36,731	3,980	8,437	49,148
Special education services and supplies	-	14,339	-	14,339	-	-	14,339
Insurance	21,002	4,502	577	26,081	5,129	115	31,325
Professional development	35,303	3,573	-	38,876	-	-	38,876
Telephone	-	-	-	-	2,412	-	2,412
Food service	1,832	203	-	2,035	-	-	2,035
Printing and copying	2,379	185	-	2,564	371	-	2,935
Student testing and assessment	4,073	453	-	4,526	-	-	4,526
Office supplies	11,161	2,391	306	13,858	2,555	61	16,474
Recruiting	577	-	-	577	1,419	-	1,996
Marketing	-	-	-	-	262	2,502	2,764
Depreciation and amortization	4,885	326	-	5,211	1,303	-	6,514
Loss on disposition of equipment	-	-	-	-	1,489	-	1,489
Furniture and fixtures	13,638	1,515	-	15,153	-	-	15,153
Equipment	25,204	2,800	-	28,004	-	-	28,004
Miscellaneous	9,518	1,111	101	10,730	6,514	4	17,248
	<u>\$ 1,076,586</u>	<u>\$ 195,193</u>	<u>\$ 46,829</u>	<u>\$ 1,318,608</u>	<u>\$ 255,923</u>	<u>\$ 14,876</u>	<u>\$ 1,589,407</u>