

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

FINANCIAL STATEMENTS

JUNE 30, 2008 AND 2007

COMMUNITY ROOTS CHARTER SCHOOL
(A Not-For-Profit Corporation)
FINANCIAL STATEMENTS
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REPORT OF INDEPENDENT AUDITORS'

TO THE BOARD OF TRUSTEES
COMMUNITY ROOTS CHARTER SCHOOL

We have audited the accompanying statement of financial position of Community Roots Charter School (the "School") (a not-for-profit corporation) as of June 30, 2008 and 2007, and the related statements of activities, and cash flows for the year ended June 30, 2008 and the period from December 9, 2005 (inception) to June 30, 2007. 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 2007 financial statements and, in our report dated September 5, 2007, 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, 2008 and 2007, and the changes in its net assets and its cash flows for the year ended June 30, 2008 and the period from 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 October 17, 2008 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 17, 2008

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

	<u>2008</u>	<u>2007</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 632,232	\$ 217,246
Grants receivable	246,037	176,206
Prepaid expenses	<u>10,761</u>	<u>8,679</u>
Total current assets	889,030	402,131
Property and equipment, net of accumulated depreciation and amortization of \$37,159 and \$6,154	111,106	107,490
Restricted cash	<u>25,314</u>	<u>-</u>
TOTAL ASSETS	<u>\$ 1,025,450</u>	<u>\$ 509,621</u>
 LIABILITIES AND UNRESTRICTED NET ASSETS		
Current liabilities:		
Accounts payable and accrued expenses	\$ 243,604	\$ 176,648
Refundable advances	<u>-</u>	<u>5,096</u>
Total current liabilities	243,604	181,744
Unrestricted net assets	<u>781,846</u>	<u>327,877</u>
TOTAL LIABILITIES AND UNRESTRICTED NET ASSETS	<u>\$ 1,025,450</u>	<u>\$ 509,621</u>

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

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

	<u>Year ended June 30, 2008</u>	<u>Period from December 9, 2005 (inception) to June 30, 2007</u>
Revenue and support:		
State and local per pupil operating revenue	\$ 1,885,510	\$ 1,020,822
Federal grants	229,502	217,414
State and city grants	30,203	186,527
Contributions and grants	148,283	417,809
Donated services	-	64,984
Interest and other income	18,763	9,728
Special events net of expenses of \$12,728	68,467	-
Total revenue and support	<u>2,380,728</u>	<u>1,917,284</u>
Expenses:		
Program services		
Regular education	1,208,542	1,076,586
Special education	352,245	195,193
Other programs	112,654	46,829
Management and general	236,784	255,923
Fundraising	16,534	14,876
Total expenses	<u>1,926,759</u>	<u>1,589,407</u>
Change in unrestricted net assets	453,969	327,877
Unrestricted net assets - beginning of period	<u>327,877</u>	<u>-</u>
Unrestricted net assets - end of period	<u>\$ 781,846</u>	<u>\$ 327,877</u>

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

COMMUNITY ROOTS CHARTER SCHOOL
(A Not-For-Profit Corporation)
STATEMENTS OF CASH FLOWS

	<u>Year ended June 30, 2008</u>	<u>Period from December 9, 2005 (inception) to June 30, 2007</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in unrestricted net assets	\$ 453,969	\$ 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	31,005	6,514
Changes in certain assets and liabilities:		
(Increase) in grants receivable	(69,831)	(176,206)
(Increase) in restricted cash	(25,314)	-
(Increase) in prepaid expense	(2,082)	(8,679)
Increase in accounts payable and accrued expenses	66,955	176,648
(Decrease) Increase in refundable advances	<u>(5,096)</u>	<u>5,096</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>449,606</u>	<u>332,739</u>
CASH FLOWS FROM INVESTING ACTIVITY		
Purchase of property and equipment	<u>(34,620)</u>	<u>(115,493)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	414,986	217,246
CASH AND CASH EQUIVALENTS – BEGINNING OF PERIOD	<u>217,246</u>	<u>-</u>
CASH AND CASH EQUIVALENTS – END OF PERIOD	<u>\$ 632,232</u>	<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, 2008 AND 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 in fiscal 2008 the School provided 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 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:

COMMUNITY ROOTS CHARTER SCHOOL
(A Not-For-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 AND 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 at June 30, 2008 and 2007.

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.

COMMUNITY ROOTS CHARTER SCHOOL
(A Not-For-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007

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

The School maintains its cash in what it believes to be credit-worthy financial institutions. However, cash balances may exceed FDIC insured levels at various times during the year. The School 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
Leasehold Improvements	Useful life of related lease

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.

COMMUNITY ROOTS CHARTER SCHOOL
(A Not-For-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007

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

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 statement of functional expenses. Accordingly, such information should be read in conjunction with the School's 2007 financial statements from which the summarized information was derived.

NOTE 2 - GRANTS RECEIVABLE

Grants receivable consisted of federal and city entitlements and grants. 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,:

	2008	2007
Equipment	\$ 72,168	\$ 49,345
Furniture and Fixtures	49,456	37,658
Software	26,641	26,641
	148,265	113,644
Less: accumulated depreciation and amortization	37,159	6,154
	\$ 111,106	\$ 107,490

Depreciation and amortization expense was \$31,005 and \$6,514 for the year ended June 30, 2008 and for the period December 9, 2005 (inception) to June 30, 2007, respectively.

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 from December 9, 2005 (inception) to June 30, 2007, the School incurred \$8,857 of service fees. This organization did not provide fiscal agent services to the School during the year ended June 30, 2008.

COMMUNITY ROOTS CHARTER SCHOOL
(A Not-For-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007

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

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 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 year ended June 30, 2008 and the period from December 9, 2005 (inception) to June 30, 2007, the value of such donated services amounted to approximately \$-0- and \$64,984, respectively. 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 audits of the basic financial statements of Community Roots Charter School (a not-for-profit corporation) for June 30, 2008 and 2007, 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 17, 2008

COMMUNITY ROOTS CHARTER SCHOOL
(A Not-For-Profit Corporation)
SCHEDULE OF FUNCTIONAL EXPENSES

For the Year Ended June 30, 2008

	Program Services			Total Program Service	Supporting Services			Period from December 9, 2005 (Inception) to June 30, 2007
	Regular Education	Special Education	Supplemental Education		Management and General	Fundraising	Total	
Salaries	\$ 805,599	\$ 235,688	\$ 69,350	\$ 1,110,637	\$ 174,894	\$ 2,700	\$ 1,288,231	\$ 921,083
Benefits and payroll taxes	168,005	40,701	5,792	214,498	16,149	249	230,896	155,728
Legal fees	4,150	-	-	4,150	4,150	-	8,300	64,984
Books	18,873	4,143	-	23,016	-	-	23,016	68,547
Contracted service	-	-	35,189	35,189	-	-	35,189	24,908
Classroom supplies	10,974	2,409	-	13,383	33	-	13,416	37,117
Curriculum supplies	17,634	3,871	-	21,505	-	-	21,505	29,679
Audit and accounting fees	-	-	-	-	17,500	-	17,500	15,720
Educational consulting	18,573	4,077	-	22,650	-	-	22,650	15,116
Technology consulting	6,221	1,037	-	7,258	3,110	-	10,368	21,287
Professional services	14,678	3,222	-	17,900	5,045	-	22,945	49,148
Special education services & supplies	-	21,111	-	21,111	-	-	21,111	14,339
Insurance	21,132	6,182	472	27,786	4,588	71	32,445	31,325
Professional development	35,951	7,892	-	43,843	-	-	43,843	38,876
Telephone	574	192	-	766	1,149	-	1,915	2,412
Food service	2,581	566	-	3,147	-	-	3,147	2,035
Printing and copying	4,117	1,205	92	5,414	894	14	6,322	2,935
Student testing and assessment	5,776	1,268	-	7,044	-	-	7,044	4,526
Office supplies	3,555	1,040	79	4,674	772	11	5,457	16,474
Recruiting	-	-	-	-	585	-	585	1,996
Marketing	-	-	-	-	150	150	300	2,764
Depreciation and amortization	22,723	5,750	233	28,706	2,264	35	31,005	6,514
Loss on disposition of equipment	-	-	-	-	-	-	-	1,489
Computer software	10,012	2,929	224	13,165	2,174	33	15,372	-
Furniture and fixtures	2,557	561	-	3,118	-	-	3,118	15,153
Equipment	13,902	3,052	-	16,954	-	-	16,954	28,004
Field trips	1,994	438	-	2,432	-	-	2,432	580
Fundraising	-	-	-	-	-	12,740	12,740	-
Miscellaneous	18,961	4,911	1,223	25,095	3,327	531	28,953	16,668
	<u>\$ 1,208,542</u>	<u>\$ 352,245</u>	<u>\$ 112,654</u>	<u>\$ 1,673,441</u>	<u>\$ 236,784</u>	<u>\$ 16,534</u>	<u>\$ 1,926,759</u>	<u>\$ 1,589,407</u>

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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, 2008, and have issued our report thereon dated October 17, 2008. 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 dated October 17, 2008.

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 17, 2008