

McGladrey & Pullen

Certified Public Accountants

Opportunity Charter School

Financial Statements

June 30, 2008

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McGladrey & Pullen

Certified Public Accountants

Independent Auditor's Report

To the Board of Directors
Opportunity Charter School
New York, New York

We have audited the accompanying statement of financial position of Opportunity Charter School as of June 30, 2008, and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of Opportunity Charter School's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior-year summarized comparative information were derived from the financial statements of Opportunity Charter School for the year ended June 30, 2007, which were audited by Goldstein Golub Kessler LLP ("GGK"), independent accountants, certain of whose partners became partners of McGladrey & Pullen, LLP effective October 3, 2007. GGK's report, dated October 29, 2007, expressed an unqualified opinion on those statements.

We conducted our audit of the 2008 financial statements in accordance with auditing standards generally accepted in the United States of America. 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 2008 financial statements referred to above present fairly, in all material respects, the financial position of Opportunity Charter School as of June 30, 2008, 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 of America.

In accordance with *Government Auditing Standards*, we have also issued our report, dated October 29, 2008, on our consideration of Opportunity Charter School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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.

McGladrey & Pullen, LLP

New York, New York
October 29, 2008

Opportunity Charter School

Statements of Financial Position
June 30, 2008 and 2007

	2008	2007
ASSETS		
Cash and Cash Equivalents	\$ 1,123,595	\$ 1,443,367
Accounts Receivable	404,180	157,953
Prepaid Expenses and Other	60,609	11,239
Property and Equipment, net	<u>420,552</u>	<u>258,842</u>
Total assets	<u>\$ 2,008,936</u>	<u>\$ 1,871,401</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	\$ 875,491	\$ 1,195,834
Capital lease obligations	<u>31,108</u>	<u>43,569</u>
Total liabilities	<u>906,599</u>	<u>1,239,403</u>
Commitments and Contingencies		
Net Assets:		
Unrestricted	1,098,038	489,635
Temporarily restricted	<u>4,299</u>	<u>142,363</u>
Total net assets	<u>1,102,337</u>	<u>631,998</u>
Total liabilities and net assets	<u>\$ 2,008,936</u>	<u>\$ 1,871,401</u>

See Notes to Financial Statements.

Opportunity Charter School

Statements of Activities
(with summarized financial information for the year ended June 30, 2007)
Years Ended June 30, 2008 and 2007

	2008		2007	
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>	<u>Summarized Comparative Total</u>
Operating revenue:				
State and local per pupil operating revenue	\$ 5,930,071	\$ -	\$ 5,930,071	\$ 3,819,739
Government grants	420,554	-	420,554	390,745
Total operating revenue	<u>6,350,625</u>	<u>-</u>	<u>6,350,625</u>	<u>4,210,484</u>
Operating expenses:				
Program services:				
General education	1,756,672	-	1,756,672	2,271,877
Special education	4,189,709	-	4,189,709	2,097,114
General and administrative	462,348	-	462,348	398,825
Total operating expenses	<u>6,408,729</u>	<u>-</u>	<u>6,408,729</u>	<u>4,767,816</u>
Deficit on school operations from government funding	<u>(58,104)</u>	<u>-</u>	<u>(58,104)</u>	<u>(557,332)</u>
Support and other revenue (expenses):				
Contributions	174,647	400,000	574,647	702,032
Net assets released from restrictions - satisfaction of purpose restriction	538,064	(538,064)	-	-
Other income	49,470	-	49,470	56,957
Fund-raising expenses	(95,674)	-	(95,674)	(122,043)
Total support and other revenue (expenses)	<u>666,507</u>	<u>(138,064)</u>	<u>528,443</u>	<u>636,946</u>
Change in net assets	<u>608,403</u>	<u>(138,064)</u>	<u>470,339</u>	<u>79,614</u>
Net assets:				
Beginning	489,635	142,363	631,998	552,384
Ending	<u>\$ 1,098,038</u>	<u>\$ 4,299</u>	<u>\$ 1,102,337</u>	<u>\$ 631,998</u>

See Notes to Financial Statements.

Opportunity Charter School

Statements of Functional Expenses
 (with summarized financial information for the year ended June 30, 2007)
 Years Ended June 30, 2008 and 2007

	2008			2007				
	Program Services			Supporting Services				Summarized Comparative Total
	General Education	Special Education	Total Program Services	General and Administrative	Fund- raising	Total Supporting Services	Total	
Salaries	\$ 1,345,965	\$ 3,479,526	\$ 4,825,491	\$ 195,924	\$ 86,250	\$ 282,174	\$ 5,107,665	\$ 3,454,549
Employee benefits and payroll taxes	111,532	287,899	399,431	16,532	7,153	23,685	423,116	825,257
Classroom supplies	102,814	133,612	236,426	-	-	-	236,426	139,865
Texts and instructional materials	58,730	71,411	130,141	-	-	-	130,141	65,402
Professional development	23,513	27,601	51,114	-	-	-	51,114	30,112
Accounting and financial audit	-	-	-	118,127	-	118,127	118,127	62,981
Computer and other consultants	35,099	41,821	76,920	17,398	-	17,398	94,318	101,824
Insurance	1,294	1,519	2,813	20,318	-	20,318	23,131	20,466
Printing and copying	2,472	2,901	5,373	460	-	460	5,833	630
Legal and other filing fees	986	1,157	2,143	44,472	-	44,472	46,615	4,277
Meeting and conferences	11,663	13,691	25,354	-	-	-	25,354	14,186
Special event	-	-	-	-	83	83	83	2,595
Office equipment and other supplies	15,700	20,734	36,434	5,164	-	5,164	41,598	51,045
Postage and delivery	300	351	651	10,109	-	10,109	10,760	9,706
Student and teacher recruitment	12,464	14,632	27,096	-	-	-	27,096	14,245
Repairs and maintenance	-	-	-	3,117	-	3,117	3,117	2,068
Facility utilities	-	4,596	4,596	23,757	-	23,757	28,353	21,696
Interest	-	-	-	2,000	-	2,000	2,000	3,287
Depreciation and amortization	34,140	88,258	122,398	4,970	2,188	7,158	129,556	65,668
	<u>\$ 1,756,672</u>	<u>\$ 4,189,709</u>	<u>\$ 5,946,381</u>	<u>\$ 462,348</u>	<u>\$ 95,674</u>	<u>\$ 558,022</u>	<u>\$ 6,504,403</u>	<u>\$ 4,889,859</u>

See Notes to Financial Statements.

Opportunity Charter School

**Statements of Cash Flows
Years Ended June 30, 2008 and 2007**

	2008	2007
Cash Flows From Operating Activities:		
Change in net assets	\$ 470,339	\$ 79,614
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	129,556	65,668
Changes in operating assets and liabilities:		
(Increase) decrease in accounts receivable	(246,227)	108,747
(Increase) decrease in prepaid expenses and other	(49,370)	12,444
(Decrease) increase in accounts payable and accrued expenses	(320,343)	524,508
	<u>(16,045)</u>	<u>790,981</u>
Net cash (used in) provided by operating activities	(16,045)	790,981
Cash Used In Financing Activity - acquisition of fixed assets	(291,266)	(125,183)
Cash Used In Investing Activity - payment on capital lease obligations	<u>(12,461)</u>	<u>(11,175)</u>
Net (decrease) increase in cash and cash equivalents	(319,772)	654,623
Cash and Cash Equivalents:		
Beginning	<u>1,443,367</u>	<u>788,744</u>
Ending	<u>\$ 1,123,595</u>	<u>\$ 1,443,367</u>
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the year for interest	<u>\$ 2,000</u>	<u>\$ 3,287</u>

See Notes to Financial Statements.

Opportunity Charter School

Notes to Financial Statements

Note 1. Principal Business Activity

Opportunity Charter School (the "Charter School") is an educational corporation that operates a charter school in the borough and county of Manhattan, New York. The Charter School was granted a charter valid for a term of five years from May 18, 2004 which is renewable by the Board of Regents of the University of the State of New York. The Charter School was established to prepare underserved middle and high school students for higher education, civic involvement and lifelong success through a structured, caring environment of high academic expectations. The Charter School is unique in that each year it accepts an incoming grade of students, 54% and 48% of whom have been classified by their previous schools as requiring special education services in the years ended June 30, 2008 and 2007, respectively. Fostering true democratic principles, the Charter School successfully educates all students together in a general education setting.

In fiscal year 2008, the Charter School operated classes for students in grades six through ten.

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

Note 2. Summary of Significant Accounting Policies

Basis of presentation: The financial statements of the Charter School have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. Accordingly, net assets are classified as unrestricted, temporarily restricted or permanently restricted based on the designation of donors.

Revenue recognition: Contributions are recognized as revenue in the year the pledge is received and documented. Contributions and unconditional promises to give are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support, which increases those net asset classes. When the specified purpose of donor-restricted contributions is met, the net asset is released from restriction and transferred to unrestricted net assets. Contributions of assets other than cash are recorded at their estimated fair value. Revenue from the state and local governments resulting from the Charter 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 funds obligated under a government grant agreement are recorded by the Charter School when the expenditures are incurred and billable to the government.

Program services: The Charter School's program services consist of both general education and special education costs. General education includes costs incurred directly in connection with the Charter School providing a rigorous extended-year college preparatory middle school and high school education. Special education include costs incurred for the Charter School to provide certain students with additional assistance.

Cash and cash equivalents: For the purposes of the statement of cash flows, cash and cash equivalents consist of money market accounts and any short term investments with maturity of thirty days or less (at the time purchases). The Charter School maintained cash in bank deposit accounts which, at times, exceeded federally insured limits. The Charter School has not experienced any losses in such accounts.

Opportunity Charter School

Notes to Financial Statements

Note 2. Summary of Significant Accounting Policies (continued)

Property and equipment: Property and equipment is recorded at cost. Depreciation and amortization is computed using the straight-line method over the estimated useful lives of the respective assets.

Accounting estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates by management. Actual results could differ from these estimates and the differences could be significant.

For comparability, certain 2007 amounts have been reclassified, where appropriate, to conform to the financial statement presentation used in 2008.

In July 2006, the FASB issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109* ("FIN 48"), which clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB Statement No. 109, *Accounting for Income Taxes*. 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 February 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, 2007. In October 2008, the FASB announced that it will be proposing to delay the effective date for an additional year for certain nonpublic enterprises. If this proposal is adopted, as expected, the School will be required to adopt FIN 48 in its 2010 annual financial statements.

Note 3. Property and Equipment, Net

Property and equipment, net, at cost, consists of the following at June 30:

	<u>2008</u>	<u>2007</u>	<u>Estimated Useful Life</u>
Computer equipment	\$ 209,212	\$ 127,043	5 years
Classroom furniture	103,069	70,206	5 years
Musical instruments	18,319	18,319	5 years
Nonclassroom equipment	71,907	36,045	3 to 5 years
Nonclassroom furniture	44,934	31,445	5 years
Equipment obtained under capital lease	71,975	71,975	5 years
Building improvement	<u>174,860</u>	<u>47,977</u>	5 years
	694,276	403,010	
Less accumulated depreciation and amortization	<u>(273,724)</u>	<u>(144,168)</u>	
	<u>\$ 420,552</u>	<u>\$ 258,842</u>	

Opportunity Charter School

Notes to Financial Statements

Note 4. Employee Benefit Plan

The Charter School is a participating employer in the Teachers' Retirement System of the City of New York ("TRS"). The amount charged to operations for benefit (credit) expense was \$(344,850) and \$315,133 for the years ended June 30, 2008 and 2007, respectively. The credit for 2008 was after an adjustment of \$(711,040) for amounts previously estimated that were found not to be required.

Note 5. Tax Status

The Internal Revenue Service has determined that the Charter School is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code.

Note 6. Facilities

As part of the New York City Chancellor's Charter School Initiative, the NYC Department of Education has committed space to charter schools within existing public schools. Beginning with fiscal year 2007, the Department of Education has facilitated Shared Use Agreements with charter schools outlining services and facility offerings to charter schools for a five-year period. The Charter School currently shares space at a public school building at no cost to the Charter School.

Note 7. Capital Lease Obligations

The School leases two copiers under capital leases expiring in February 2010. The leases require monthly payments of principal and interest at an imputed interest rate of 7% per annum. Future minimum lease payments under the leases are as follows:

Year ending June 30,		
2009	\$	22,383
2010		<u>10,857</u>
		33,240
Less amount representing interest		<u>(2,132)</u>
	\$	<u>31,108</u>

Opportunity Charter School

Notes to Financial Statements

Note 8. Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes as of June 30:

	<u>2008</u>	<u>2007</u>
Summer school program	\$ -	\$ 25,000
After-school program	<u>4,299</u>	<u>117,363</u>
	<u>\$ 4,299</u>	<u>\$ 142,363</u>

Net assets released from restrictions consist of the following for the years ended June 30:

	<u>2008</u>	<u>2007</u>
Summer school program	\$ 25,000	\$ -
After-school program	<u>513,064</u>	<u>353,326</u>
	<u>\$ 538,064</u>	<u>\$ 353,326</u>

Note 9. Contingencies

Certain grants and contracts may be subject to audit by the funding sources. Such audits might result in disallowances of costs submitted for reimbursement. 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.

A claim has been filed in the amount of \$66,000,000 in connection with harassment and/or discrimination charges against the School during the year ended June 30, 2008. Management, on the advice of counsel, believes that it has good defenses to these charges and is defending accordingly. The full amount of the claim exceeds the Charter School's insurance coverage; however, management believes that any reasonable loss, if the claim were to succeed, would likely be well within the Charter School's insurance coverage.

McGladrey & Pullen

Certified Public Accountants

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 Directors
Opportunity Charter School
New York, New York

We have audited the financial statements of Opportunity Charter School (the "Charter School") as of and for the year ended June 30, 2008, and have issued our report thereon dated October 29, 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 in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements, but not to provide an opinion on 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 a combination of control deficiencies, that adversely affects the entity'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 material misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity'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 entity's internal control.

Our consideration of the 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 the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we considered to be material weaknesses as defined above.

Compliance and Other Matters - As part of obtaining reasonable assurance about whether the Organization's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contract 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 a certain matter that we have reported to management in a separate letter dated October 29, 2008.

This report is intended solely for the information and use of the board of directors, management, the New York State Education Department and the Department of Education of the City of New York and is not intended to be and should not be used by anyone other than these specified parties.

McGladrey & Pullen, LLP

New York, New York
October 29, 2008