

PAVE ACADEMY CHARTER SCHOOL

FINANCIAL STATEMENTS

JUNE 30, 2010 AND 2009

FRUCHTER ROSEN & COMPANY, P.C.
CERTIFIED PUBLIC ACCOUNTANTS
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INDEPENDENT AUDITORS' REPORT

TO THE BOARD OF TRUSTEES
PAVE ACADEMY CHARTER SCHOOL

We have audited the accompanying statements of financial position of PAVE Academy Charter School (the "School") (a not-for-profit corporation) as of June 30, 2010 and 2009, and the related statements of activities, and cash flows for the year ended June 30, 2010 and 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 audits.

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 provide 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, 2010 and 2009 and the changes in its net assets and its cash flows for the year ended June 30, 2010 and 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 September 1, 2010 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 audits.


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

New York, New York
September 1, 2010

PAVE ACADEMY CHARTER SCHOOL
STATEMENTS OF FINANCIAL POSITION
JUNE 30,

	2010	2009
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 540,471	\$ 370,362
Grants and contracts receivable	31,910	33,725
Prepaid expenses and other current assets	6,294	7,512
Total current assets	578,675	411,599
Other assets:		
Property and equipment, net of accumulated depreciation and amortization of \$ 113,406 and \$47,992, respectively	142,949	161,557
Restricted cash	50,179	25,028
Total other assets	193,128	186,585
 TOTAL ASSETS	 \$ 771,803	 \$ 598,184
LIABILITIES AND UNRESTRICTED NET ASSETS		
Current liabilities:		
Accounts payable and accrued expenses	37,635	\$ 36,396
Accrued payroll and payroll taxes	119,320	88,013
Refundable advances	6,221	38,536
Total current liabilities	163,176	162,945
Unrestricted net assets	608,627	435,239
 TOTAL LIABILITIES AND UNRESTRICTED NET ASSETS	 \$ 771,803	 \$ 598,184

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

PAVE ACADEMY CHARTER SCHOOL
STATEMENTS OF ACTIVITIES

	For the year ended June 30, 2010			From January 15, 2008 (Inception) to June 30, 2009
	Unrestricted	Temporarily Restricted	Total	
Revenue and support:				
State and local per pupil operating revenue	\$ 1,760,951	\$ -	\$ 1,760,951	\$ 1,207,558
Federal grants	233,001		233,001	236,809
State and city grants	27,971		27,971	131,058
Contributions and grants	159,306	36,000	195,306	434,703
Donated goods and services	325,362		325,362	310,784
Interest income	1,457		1,457	1,535
Loss on disposal of assets	-		-	(693)
Net assets released from restrictions - satisfaction of purpose restriction	36,000	(36,000)	-	-
Total revenue and support	<u>2,544,048</u>	<u>-</u>	<u>2,544,048</u>	<u>2,321,754</u>
Expenses:				
Program services				
Regular education	1,741,227	-	1,741,227	1,391,703
Special education	190,761	-	190,761	113,316
Total program expenses	<u>1,931,988</u>	<u>-</u>	<u>1,931,988</u>	<u>1,505,019</u>
Supporting services				
Management and general	438,672	-	438,672	381,496
Total expenses	<u>2,370,660</u>	<u>-</u>	<u>2,370,660</u>	<u>1,886,515</u>
Changes in net assets	173,388	-	173,388	435,239
Net assets - beginning of period	<u>435,239</u>	<u>-</u>	<u>435,239</u>	<u>-</u>
Net assets - end of period	<u>\$ 608,627</u>	<u>\$ -</u>	<u>\$ 608,627</u>	<u>\$ 435,239</u>

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

PAVE ACADEMY CHARTER SCHOOL
STATEMENTS OF CASH FLOWS

	<u>For the year ended June 30, 2010</u>	<u>From January 15, 2008 (Inception) to June 30, 2009</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase in unrestricted net assets	\$ 173,388	\$ 435,239
Adjustments to reconcile increase in unrestricted net assets to net cash provided by operating activities:		
Depreciation and amortization	65,414	48,384
Loss on disposal of fixed assets	-	693
Changes in certain assets and liabilities:	-	-
(Increase) decrease in grants and contracts receivable	1,815	(33,725)
(Increase) decrease in prepaid expenses and other current assets	1,218	(7,512)
Increase in accounts payable and accrued expenses	1,239	36,396
Increase in accrued payroll and payroll taxes	31,307	88,013
Increase(decrease) in refundable advance	(32,315)	38,536
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>242,066</u>	<u>606,024</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
(Increase) in restricted cash	(25,151)	(25,028)
Purchase of property and equipment	(46,806)	(210,634)
NET CASH (USED IN) INVESTING ACTIVITIES	<u>(71,957)</u>	<u>(235,662)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	170,109	370,362
CASH AND CASH EQUIVALENTS - BEGINNING OF PERIOD	<u>370,362</u>	<u>-</u>
CASH AND CASH EQUIVALENTS - END OF PERIOD	<u><u>\$ 540,471</u></u>	<u><u>\$ 370,362</u></u>

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

PAVE ACADEMY CHARTER SCHOOL
FINANCIAL STATEMENTS
JUNE 30, 2010 AND 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 136 students in kindergarten, first and second grades in the 2009-2010 academic year.

The School shares space with a New York City public school. 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

PAVE Academy participated in an audit year from September 2009-June 2010 to test compliance in order to receive a school wide free lunch program. The results of the state's audit demonstrated that PAVE Academy's records and practices meet state standards. Starting in September 2009, PAVE Academy families nor the school were no longer billed for student meals.

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 the Financial Accounting Standards Board ("FASB") in its Accounting Standards Codification ("ASC") 958-205. Under ASC 958-205, 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, 2010 AND 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.

There were no temporary or permanently restricted net assets at June 30, 2010 and 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, 2010 AND 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:

Computer Equipment	5 years
Furniture and Fixtures	7 years
Software	3 years

Refundable Advances

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

PAVE ACADEMY CHARTER SCHOOL
FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

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

Recent Accounting Pronouncements

In June 2009, the FASB issued FASB Accounting Standards Codification (ASC) 105, *Generally Accepted Accounting Principles*, which establishes the FASB Accounting Standards Codification as the sole source of authoritative generally accepted accounting principles. Pursuant to the provisions of FASB ASC 105, the organization has updated references to GAAP in its financial statements issued for the year ended June 30, 2010. The adoption of FASB ASC 105 did not impact the School's financial position or results of operations.

The School adopted the provisions of ASC 740-10, *Income Taxes*, as of July 1, 2009. This standard clarifies the accounting for uncertainty in income taxes recognized in an organization's financial statements and prescribes a recognition threshold and measurement standard for the financial statement recognition and measurement of income tax positions taken or expected to be taken in a tax return. The School has reviewed its tax position for open tax years and has concluded that the adoption of this standard did not have an impact on the financial statements of the School.

NOTE 2 - GRANTS AND CONTRACTS RECEIVABLE

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

NOTE 3 - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following as of June 30,

	<u>2010</u>	<u>2009</u>
Computer Equipment	\$154,580	\$120,971
Furniture and fixtures	38,092	29,065
Software	<u>63,683</u>	<u>59,513</u>
	256,355	209,549
Less: Accumulated depreciation and amortization	<u>(113,406)</u>	<u>(47,992)</u>
Total	<u>\$142,949</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 and amortization expense was \$65,414 and \$48,384 for the year ended June 30, 2010 and for the period January 15, 2008 (inception) to June 30, 2009, respectively.

PAVE ACADEMY CHARTER SCHOOL
FINANCIAL STATEMENTS

JUNE 30, 2010 AND 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 year ended June 30, 2010 and 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.

NOTE 7 - FUNCTIONAL ALLOCATION OF EXPENSES

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 - CONTRIBUTED GOODS AND SERVICES

Donated services are recognized as contributions in accordance with ASC 958-605, *Contributed Services*, 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 year ended June 30, 2010, and the period from January 15, 2008 (inception), to June 30, 2009, the value of such donated services amounted to \$325,362 and \$300,029, respectively.

PAVE ACADEMY CHARTER SCHOOL
FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 8 - CONTRIBUTED GOODS AND SERVICES (continued)

An enrichment program was provided to a School class for one day per week, during the academic year ending June 30, 2009, at no charge. In addition, the School's administration received furniture from a donor at no charge; the value of such donated facilities and furniture amounted to \$10,755. The School did not receive any donated goods for the year ended June 30, 2010.

The value of these donated goods and services is allocated accordingly between the programs, management and general services in the accompanying statements of activities and schedules 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 \$23,904 and \$13,144 for the year ended June 30, 2010 and for the period from January 15, 2008 (inception) to June 30, 2009, respectively.

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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 year ended June 30, 2010 and 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
September 1, 2010

PAVE ACADEMY CHARTER SCHOOL
SCHEDULES OF FUNCTIONAL EXPENSES

For the year ended June 30, 2010

	Regular Education	Special Education	Total Program Services	Management and General	Total	From January 15, 2008 (Inception) to June 30, 2009
Salaries and wages	968,234	108,136	\$ 1,076,370	230,923	\$ 1,307,293	\$ 948,175
Employee benefits and payroll taxes	208,884	21,599	230,483	47,271	277,754	165,919
Outside services and consulting	58,205	6,341	64,546	24,675	89,221	122,072
Instructional materials	52,959	5,885	58,844	-	58,844	98,540
Professional development	25,924	2,880	28,804	5,988	34,792	48,439
Enrichment support	-	-	-	-	-	7,650
Student meals	1,984	220	2,204	-	2,204	3,640
Classroom and office supplies	36,309	4,035	40,344	21,853	62,197	28,004
Donated legal services	244,022	26,029	270,051	55,311	325,362	300,029
Auditing and accounting fees	-	-	-	18,771	18,771	22,526
Recruiting and marketing	9,831	1,053	10,884	2,004	12,888	14,583
Insurance	8,411	897	9,308	1,907	11,215	16,882
Maintenance and repairs	7,020	749	7,769	1,591	9,360	10,087
Non-capitalized equipment and technology	15,793	1,735	17,528	1,626	19,154	13,258
Postage, printing and shipping	3,208	342	3,550	727	4,277	2,313
Staff lunches and team building	8,035	857	8,892	1,821	10,713	5,867
Telephone and internet	10,637	1,135	11,772	2,410	14,182	13,263
Travel and conference	32,711	3,635	36,346	69	36,415	14,561
Depreciation and amortization	49,060	5,233	54,293	11,121	65,414	48,384
Miscellaneous	-	-	-	10,604	10,604	2,323
	<u>\$ 1,741,227</u>	<u>\$ 190,761</u>	<u>\$ 1,931,988</u>	<u>\$ 438,672</u>	<u>\$ 2,370,660</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 year ended June 30, 2010 and for the period from January 15, 2008 (inception) to June 30, 2009, and have issued our report thereon dated September 1, 2010. 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.

Internal Control over Financial Reporting

In planning and performing our audits, 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 deficiency in internal control 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 and correct misstatements on a timely basis. *A material weakness* is a deficiency, or combination of deficiencies in internal control such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented or detected and corrected on a timely basis.

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
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 audits, 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 September 1, 2010.

This report is intended solely for the information and use of management, Board of Trustees, federal, state and local awarding agencies, The Department of Education of the City of New York, The State Education Department of the State University of New York, and others within the school 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
September 1, 2010