

NYC CHARTER HIGH SCHOOL FOR
ARCHITECTURE, ENGINEERING, AND
CONSTRUCTION INDUSTRIES

FINANCIAL STATEMENTS
WITH INDEPENDENT AUDITOR'S REPORT

JUNE 30, 2011 AND 2010

NYC CHARTER HIGH SCHOOL FOR ARCHITECTURE,
ENGINEERING, AND CONSTRUCTION INDUSTRIES

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
NYC Charter High School for Architecture,
Engineering and Construction Industries

We have audited the accompanying statement of financial position of NYC Charter High School for Architecture, Engineering and Construction Industries as of June 30, 2011 and 2010, and the related statements of activities and cash flows for years then ended. 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 provides a reasonable basis for our opinion.

In our opinion, the financial statements present fairly, in all material respects, the financial position of NYC Charter High School for Architecture, Engineering and Construction Industries as of June 30, 2011 and 2010, and the results of its operations and its cash flows for the years 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 September 30, 2011 on our consideration of NYC Charter High School for Architecture, Engineering and Construction Industries 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 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 audits.

Our audits were performed for the purpose of forming an opinion on the basic financial statements of the School taken as a whole. The accompanying schedules of functional expenses are presented for purpose of additional analysis and are 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 taken as a whole.

Koch Group & Company, LLP

Certified Public Accountants

New York, New York
September 30, 2011

NYC CHARTER HIGH SCHOOL FOR ARCHITECTURE,
ENGINEERING AND CONSTRUCTION INDUSTRIES

STATEMENTS OF FINANCIAL POSITION

JUNE 30,

ASSETS

	2011	2010
CURRENT ASSETS		
Cash	\$ 264	\$ 45,192
Restricted cash	10,001	10,001
Due from government agencies	123,899	85,925
Prepaid expenses	80,492	72,229
Security deposits	111,270	90,326
Total Current Assets	325,926	303,673
PROPERTY AND EQUIPMENT, at cost, less accumulated depreciation	576,589	532,889
Total Assets	\$ 902,515	\$ 836,562

LIABILITIES AND NET ASSETS

LIABILITIES		
Accounts payable	\$ 132,249	\$ 95,100
Accrued expenses	277,393	243,704
Obligations under capital lease	8,515	18,706
Due to management company	8,016	359,414
Total Liabilities	426,173	716,924
NET ASSETS - UNRESTRICTED	476,342	119,638
Total Liabilities and Net Assets	\$ 902,515	\$ 836,562

See notes to financial statements.

NYC CHARTER HIGH SCHOOL FOR ARCHITECTURE,
ENGINEERING AND CONSTRUCTION INDUSTRIES

STATEMENTS OF ACTIVITIES

YEARS ENDED JUNE 30,

	2011	2010
UNRESTRICTED NET ASSETS		
REVENUE, GAINS AND OTHER SUPPORT		
Public School District		
Resident student enrollment	\$ 4,284,001	\$ 2,838,559
Grants and Contracts		
State and local	79,031	63,224
Federal - Title and IDEA	228,935	170,766
Federal - Other		
Interest and other income	17,076	3,191
Contribution - Foundation/Individual/Corporation	3,580	2,458
Food Service/Child Nutrition Program	46,324	32,298
	4,658,947	3,110,496
EXPENSES		
Program Expenses		
Regular education	3,540,916	2,201,884
Special education	305,327	232,185
	3,846,243	2,434,069
Supporting Services		
Management and general	456,000	466,250
	4,302,243	2,900,319
CHANGE IN NET ASSETS	356,704	210,177
NET ASSETS		
Beginning of year	119,638	(90,539)
End of year	\$ 476,342	\$ 119,638

See notes to financial statements.

NYC CHARTER HIGH SCHOOL FOR ARCHITECTURE,
ENGINEERING AND CONSTRUCTION INDUSTRIES

STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE, 30

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in Net Assets	\$ 356,704	\$ 210,177
ADJUSTMENTS TO RECONCILE INCREASE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Depreciation	123,316	61,155
Changes in Assets and Liabilities		
Restricted cash	-	(10,001)
Due from government agencies	(37,974)	10,327
Prepaid expenses	(8,263)	(47,096)
Due to management company	(351,398)	17,154
Accounts payable	37,149	44,577
Accrued expenses	33,689	100,737
Security deposits	(20,944)	(26,159)
Net Cash Provided by Operating Activities	132,279	360,871
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of fixed assets	(167,016)	(338,166)
Obligations under capital lease	(10,191)	2,977
Net Cash Used in Investing Activities	(177,207)	(335,189)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(44,928)	25,682
CASH AND CASH EQUIVALENTS		
Beginning of year	45,192	19,510
End of year	\$ 264	\$ 45,192

See notes to financial statements.

NYC CHARTER HIGH SCHOOL FOR
ARCHITECTURE, ENGINEERING, AND
CONSTRUCTION INDUSTRIES

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011 AND 2010

1. Organization

The New York City Charter High School for Architecture, Engineering and Construction Industries (“The School”), a 501 (c) 3 tax-exempt organization, is a public charter high school located in The Bronx, New York. The School opened in September 2008 and currently operates classes for ninth and tenth grades and plans to add one grade per year until grade twelve is reached. The mission of the school is to create an integrated, rigorous academic and career preparatory learning environment that provides students with a foundation of the necessary skills, knowledge and practical experience to pursue a path leading to college and/or a career in the construction industry.

2. Summary of Significant Accounting Policies

a) Basis of Accounting

The accompanying financial statements are prepared on the accrual basis of accounting in accordance with generally accepted accounting principles.

b) Financial Statement Presentation

The School is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted. Furthermore, information is required to segregate program service expenses from support expenses.

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. Temporarily restricted net assets are reclassified to unrestricted net assets upon satisfaction of the time or purpose restrictions.

c) Donated Services

No amounts are reflected in the financial statements for donated services, as the services do not meet the specialized skill requirements prescribed under accounting principles generally accepted in the United States of America.

NYC CHARTER HIGH SCHOOL FOR
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NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011 AND 2010

2. Summary of Significant Accounting Policies (Continued)

d) Functional Allocation of Expenses

Costs and expenses of various programs and other activities have been analyzed on a functional basis. Accordingly, all costs and expenses incurred have been allocated among the programs and supporting services benefited.

e) Leasehold Improvements and Equipment

Leasehold improvements and equipment are being depreciated using the straight-line method based on their estimated useful lives.

f) Cash and Cash Equivalents

The School maintains its cash in bank deposit accounts, which, at times, may exceed federally insured limits. The School has not experienced any losses in such accounts. The School believes it is not exposed to significant credit risk on cash and equivalents.

For purposes of the statement of cash flows, the School considers all highly liquid debt instruments purchased with maturity of three months or less to be cash equivalents.

3. Restricted Cash

Pursuant to an addendum to the Charter Agreement dated August 4, 2008, from the New York City Department of Education ("NYCDOE"), the NYCDOE requires the school to establish an escrow of at least \$70,000 over a 3-years period. In the event of termination of the charter, whether prematurely or otherwise, The School shall establish and follow procedures consistent with those required by Section 2851(2)(t) of the New York State Education Law in its use of the escrow.

NYC CHARTER HIGH SCHOOL FOR
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NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011 AND 2010

4. Pupil Enrollment and Other Revenues From Government Agencies

Under the Charter School Agreement and the Charter Schools Act, the School is entitled to receive funding from governmental sources that are available to public schools. The calculation of the amounts to be paid to the School under these programs is determined by the State, and is based on complex laws and regulations, enrollment levels, and economic information related to the home school districts of the children enrolled in the School. If these regulations, some of which are relatively new in the State of New York, were to change, or other factors included in the calculations were to change, the level of funding that the School receives could vary significantly.

The amounts are based upon actual amounts received as well as estimates by the management based upon the best information available at the time. However, actual amounts received, as determined by the funding source, could vary based on changes in the factors used to calculate the amounts owed.

In addition the school received government funding and grants as follows:

	<u>2011</u>	<u>2010</u>
Federal	\$ 228,935	\$170,766
New York State	36,280	-
New York City	<u>42,751</u>	<u>63,224</u>
	<u>\$ 307,966</u>	<u>\$233,990</u>

5. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses consist of amounts due to vendors and to staff for payroll earned during the school year but paid out over the summer months.

NYC CHARTER HIGH SCHOOL FOR
ARCHITECTURE, ENGINEERING, AND
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NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011 AND 2010

6. Property and Equipment

Property and equipment consisted of the following:

	<u>2011</u>	<u>2010</u>	<u>Estimated Useful Life</u>
Leasehold improvement	\$340,981	\$277,188	30 years
Construction in progress	-	43,043	
Furniture and fixtures	160,301	114,953	7 years
Computer equipment	219,951	131,705	5 years
Office equipment	<u>61,739</u>	<u>49,067</u>	5 years
	782,972	615,956	
Less: Accumulated depreciation	<u>(206,383)</u>	<u>(83,067)</u>	
Total	<u>\$576,589</u>	<u>\$532,889</u>	

Depreciation expense for the year ended June 30, 2011 and 2010 was \$261,077 and 61,155.

7. Defined Contribution Plan

The School offers a 401(k) plan for substantially all of its employees. Employees are eligible for the plan immediately upon employment and participation in the plan is voluntary. Employees can make pretax contributions up to a maximum of 100% of their annual compensation, subject to IRS restrictions. The School matches the employee contribution up to 4% of the employee's annual compensation. The employer contribution recognized in the statement of activities was \$23,786 and \$13,102 for the year ended June 30, 2011 and 2010. Such plan assets are held in a separate trust and are not included in the accompanying financial statements. All plan assets are held for the exclusive benefit of the Plan's participants and beneficiaries.

NYC CHARTER HIGH SCHOOL FOR
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NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011 AND 2010

8. Management

Victory Education Partners (“Victory”) manages the operations of the School under a management agreement executed on May 27, 2008. Under the Agreement, Victory assumes responsibility for all tasks and functions associated with the educational services to be provided to the children enrolled as students at the School in accordance with the terms of the charter and the Charter Schools Act, subject to the appropriate oversight from the School’s Board of Trustees. Victory is responsible for designing the curriculum, acquiring educational materials, hiring all staff, and providing all financial and accounting functions.

The School entered into a service agreement with Victory that expires on June 30, 2013. Service fees for the years ended June 30, 2011 and 2010 were \$445,000 and 456,250.

Future fee payments for the next two years are as follow:

<u>Year ended June 30</u>	
2012	\$ 412,000
2013	424,360

Any fees not paid within thirty days of its due date bear interest at an annualized rate of 7% per annum on the outstanding past due amount, provided that such past due payments are not as a result of the New York City Public School District’s failure to timely remit the district funding to the Charter School, or causes otherwise beyond the control of the Charter School.

9. Commitments

The School has entered into an operating lease agreement for equipment. Equipment lease expense was \$10,191 and \$11,801 for the year ended June 30, 2011 and 2010.

The School is a lessee under operating leases, principally used for classroom space and administrative offices. The lease, which expires in 2038, increases 4% annually and requires payment of all real estate taxes.

NYC CHARTER HIGH SCHOOL FOR
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NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011 AND 2010

9. Commitments (Continued)

Future minimum annual lease payments for the next five years are as follows:

<u>Year ended June 30</u>	<u>Office</u>	<u>Equipment</u>
2012	433,073	8,170
2013	450,396	
2014	468,411	
2015	487,148	

10. Contingency

The School participates in a number of federal and state programs. These programs require that the School comply with certain requirements of laws, regulations, contracts, and agreements applicable to the programs in which it participates. All funds expended in connection with government grants and contracts are subject to audit by government agencies. While the ultimate liability, if any, from such audits of government and contracts by government agencies is presently not determinable, it should not, in the opinion of the management, have a material effect on the financial position or results of operations. Accordingly, no provision for any such liability that may result has been made in the accompanying financial statements.

11. Subsequent Events

The escrow account required by NYCDOE was fully funded at September 29, 2011. Management has evaluated subsequent events through October 1, 2011, the date that financial statements were available to be issued. No significant subsequent events have been identified that would require adjustment or disclosure in the accompanying financial statements.

NYC CHARTER HIGH SCHOOL FOR ARCHITECTURE,
ENGINEERING AND CONSTRUCTION INDUSTRIES

SCHEDULE OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE, 30 2011

	Regular Education	Special Education	Total Programs	Management & General	Total
<u>Personnel Expenses</u>					
Salaries and wages	\$ 1,678,722	\$ 120,233	\$ 1,798,955	\$ -	\$ 1,798,955
Payroll taxes	153,988	11,421	165,409		165,409
Fringe benefits	370,065	23,831	393,896		393,896
 Total Personnel Expenses	 <u>2,202,775</u>	 <u>155,485</u>	 <u>2,358,260</u>	 <u>-</u>	 <u>2,358,260</u>
<u>Operating Expenses</u>					
Contracted services - financial and administrative	-	-	-	445,000	445,000
Contracted services - other	41,373	4,633	46,006		46,006
Administrative	49,551	5,549	55,100		55,100
Advertising	10,005	1,120	11,125		11,125
Insurance	41,160	4,609	45,769		45,769
Legal and professional	79,949	8,952	88,901	11,000	99,901
Maintenance and security	63,956	7,162	71,118		71,118
Occupancy	729,415	81,677	811,092		811,092
Postage and shipping	9,418	1,055	10,473		10,473
Staff development	24,755	2,772	27,527		27,527
Student field trips	212	24	236		236
Supplies and materials	45,435	5,088	50,523		50,523
Instructional materials	44,995	5,038	50,033		50,033
Food service	41,678	4,667	46,345		46,345
Telephone and internet services	42,086	4,713	46,799		46,799
Depreciation	110,898	12,418	123,316		123,316
Other expenses	3,255	365	3,620		3,620
 Total Operating Expenses	 <u>1,338,141</u>	 <u>149,842</u>	 <u>1,487,983</u>	 <u>456,000</u>	 <u>1,943,983</u>
 TOTAL EXPENSES	 <u>\$ 3,540,916</u>	 <u>\$ 305,327</u>	 <u>\$ 3,846,243</u>	 <u>\$ 456,000</u>	 <u>\$ 4,302,243</u>

NYC CHARTER HIGH SCHOOL FOR ARCHITECTURE,
ENGINEERING AND CONSTRUCTION INDUSTRIES

SCHEDULE OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2010

	Regular Education	Special Education	Total Programs	Management & General	Total
<u>Personnel Expenses</u>					
Salaries and wages	\$ 1,145,378	\$ 120,233	\$ 1,265,611	\$ -	\$ 1,265,611
Payroll taxes	108,798	11,421	120,219		120,219
Fringe benefits	227,024	23,831	250,855		250,855
Total Personnel Expenses	<u>1,481,200</u>	<u>155,485</u>	<u>1,636,685</u>	<u>-</u>	<u>1,636,685</u>
<u>Operating Expenses</u>					
Contracted services - financial and administrative	-	-	-	456,250	456,250
Contracted services - other	35,110	3,686	38,796		38,796
Administrative	29,658	3,113	32,771		32,771
Advertising	10,446	1,096	11,542		11,542
Insurance	37,046	3,889	40,935		40,935
Legal and professional	57,326	7,067	64,393	10,000	74,393
Maintenance and security	23,524	2,469	25,993		25,993
Occupancy	238,306	25,015	263,321		263,321
Postage and shipping	11,091	1,164	12,255		12,255
Staff development	8,978	942	9,920		9,920
Student field trips	1,350	142	1,492		1,492
Supplies and materials	50,935	5,347	56,282		56,282
Instructional materials	84,684	8,889	93,573		93,573
Food service	37,865	3,975	41,840		41,840
Telephone and internet services	25,257	2,651	27,908		27,908
Interest expense	13,226	1,388	14,614		14,614
Depreciation	55,345	5,810	61,155		61,155
Other expenses	537	57	594		594
Total Operating Expenses	<u>720,684</u>	<u>76,700</u>	<u>797,384</u>	<u>466,250</u>	<u>1,263,634</u>
TOTAL EXPENSES	<u>\$ 2,201,884</u>	<u>\$ 232,185</u>	<u>\$ 2,434,069</u>	<u>\$ 466,250</u>	<u>\$ 2,900,319</u>



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INDEPENDENT AUDITOR'S 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
NYC Charter High School for Architecture,
Engineering and Construction Industries

We have audited the financial statements of NYC Charter High School for Architecture, Engineering and Construction Industries as of and for the year ended June 30, 2011 and have issued a report thereon dated September 30, 2011. 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 NYC Charter High School for Architecture, Engineering and Construction Industries' 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 NYC Charter High School for Architecture, Engineering and Construction Industries' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the NYC Charter High School for Architecture, Engineering and Construction Industries' 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 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. 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 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether NYC Charter High School for Architecture, Engineering and Construction Industries' 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. This report is intended solely for the information and use of management, the Board of Trustees, others within the entity, 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.

Koch Group & Company, LLP
Certified Public Accountants

New York, New York
September 30, 2011