

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

FINANCIAL STATEMENTS  
WITH INDEPENDENT AUDITOR'S REPORT

JUNE 30, 2009

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

INDEX

	<u>Page</u>
INDEPENDENT AUDITOR'S REPORT	1
FINANCIAL STATEMENTS	
Statement of Financial Position	2
Statement of Activities	3
Statement of Functional Expenses	4
Statement of Cash Flows	5
NOTES TO FINANCIAL STATEMENTS	6-10
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	11-12



# KOCH GROUP & COMPANY, LLP

CERTIFIED PUBLIC ACCOUNTANTS

333 Seventh Avenue  
New York, NY 10001  
(212) 631-0700 FAX (212) 631-0109

## 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, 2009, and the related statements of activities, functional expenses, and cash flows for year 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 audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements present fairly, in all material respects, the financial position of NYC Charter High School for Architecture, Engineering and Construction Industries as of June 30, 2009, and the results of its operations 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 September 29, 2009 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 audit.

*Koch Group & Company, LLP*

Certified Public Accountants

New York, New York  
September 29, 2009

NYC CHARTER HIGH SCHOOL FOR ARCHITECTURE,  
ENGINEERING AND CONSTRUCTION INDUSTRIES

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2009

ASSETS

CURRENT ASSETS

Cash	\$ 19,510
Due from government agencies	96,252
Prepaid expenses	25,133
Security deposits	64,167

Total Current Assets 205,062

FIXED ASSETS, at cost, less accumulated depreciation 255,878

Total Assets \$ 460,940

LIABILITIES AND NET ASSETS

LIABILITIES

Accounts payable	\$ 66,252
Accrued expenses	382,517
Due to management company	102,710

Total Liabilities 551,479

NET ASSETS - UNRESTRICTED (90,539)

Total Liabilities and Net Assets \$ 460,940

See notes to financial statements.

NYC CHARTER HIGH SCHOOL FOR ARCHITECTURE,  
ENGINEERING AND CONSTRUCTION INDUSTRIES

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2009

UNRESTRICTED NET ASSETS

PUBLIC SUPPORT AND REVENUE

Resident student enrollment	\$ 1,490,360
Food subsidy	32,214
Government funding	229,238
Interest income	131
Other income	3,200
	<hr/>
Total Public Support and Revenue	1,755,143

EXPENSES

Program Expenses	
Regular education	1,576,968
Supporting Services	
Management and general	268,714
	<hr/>
Total Expenses	1,845,682

CHANGE IN NET ASSETS (90,539)

NET ASSETS

Beginning of year	<hr/>
End of year	\$ (90,539)

See notes to financial statements.

NYC CHARTER HIGH SCHOOL FOR ARCHITECTURE,  
ENGINEERING AND CONSTRUCTION INDUSTRIES

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2009

	Regular Education	Management & General	Total
<b>Personnel Expenses</b>			
Salaries and wages	\$ 674,104	\$ -	\$ 674,104
Payroll taxes	66,210		66,210
Fringe benefits	97,496		97,496
<b>Total Personnel Expenses</b>	<b>837,810</b>	<b>-</b>	<b>837,810</b>
<b>Operating Expenses</b>			
Contracted services - financial and administrative	-	239,550	239,550
Contracted services - other	42,879		42,879
Administrative	33,458		33,458
Advertising	42,784		42,784
Depreciation	21,912		21,912
Food	36,147		36,147
Insurance	25,788		25,788
Interest expense	-	19,164	19,164
Legal and professional	20,322	10,000	30,322
Maintenance and security	29,647		29,647
Occupancy	130,942		130,942
Other expenses	4,498		4,498
Postage and shipping	3,271		3,271
Repairs	3,348		3,348
Staff development	29,787		29,787
Student field trips	2,790		2,790
Supplies and materials	78,182		78,182
Telephone	10,671		10,671
Instructional materials	181,749		181,749
Utilities	40,983		40,983
<b>Total Operating Expenses</b>	<b>739,158</b>	<b>268,714</b>	<b>1,007,872</b>
<b>TOTAL EXPENSES</b>	<b>\$ 1,576,968</b>	<b>\$ 268,714</b>	<b>\$ 1,845,682</b>

See notes to financial statements.

NYC CHARTER HIGH SCHOOL FOR ARCHITECTURE,  
ENGINEERING AND CONSTRUCTION INDUSTRIES

STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2009

<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Decrease in Net Assets	\$ (90,539)
<b>ADJUSTMENTS TO RECONCILE DECREASE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	
Depreciation	21,912
<b>Changes in Assets and Liabilities</b>	
Due from government agencies	(96,252)
Prepaid expenses	(25,133)
Due to management company	102,710
Accounts payable	66,252
Accrued expenses	382,517
Security deposits	(64,167)
	<u>297,300</u>
<b>Net Cash Provided by Operating Activities</b>	<u>297,300</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Acquisition of fixed assets	<u>(277,790)</u>
<b>Net Cash Used in Investing Activities</b>	<u>(277,790)</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	19,510
<b>CASH AND CASH EQUIVALENTS</b>	
Beginning of year	<u>-</u>
End of year	<u>\$ 19,510</u>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>	
Cash Paid for Interest	<u>\$ -</u>

See notes to financial statements.

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

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

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 commenced operating classes for 122 students in the ninth grade with 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.

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

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

2. Summary of Significant Accounting Policies (Continued)

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.

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.

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

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

3. 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 received 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:

Federal	\$ 81,228
New York State	9,134
New York City	<u>138,876</u>
	<u>\$229,238</u>

4. Fixed Assets

At June 30, 2009, fixed assets consisted of the following:

		Estimated Useful <u>Life</u>
Leasehold improvements	\$ 78,547	30 years
Construction in progress	43,043	-
Furniture, fixtures	62,221	7 years
Computer equipment	54,852	5 years
Office equipment	<u>39,127</u>	5 years
	277,790	
Less: Accumulated depreciation	<u>(21,912)</u>	
Total	<u>\$255,878</u>	

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

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

5. Accounts Payable and Accrued Expenses

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

6. 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 \$1,465 for the year ended June 30, 2009. 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.

7. Commitments

The School has entered into an operating lease agreement for equipment. Equipment lease expense was \$4,494 for the year ended June 30, 2009.

The School has entered into a lease agreement for space used for classroom instruction and administrative activities. The lease, which expires in 2038, increases 4% annually and requires payment of all real estate taxes. Lease payment commenced September 2008. Occupancy expense net of month-to-month sub-lease income of \$208,333 for the ten months ended June 30, 2009 was \$130,942.

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>
2010	\$ 400,400	\$ 6,741
2011	416,416	6,741
2012	433,073	
2013	450,396	
2014	468,411	

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

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

7. Commitments (Continued)

Victory Schools, Inc. ("Victory") provides financial and certain administrative services under an agreement entered into by the School and Victory. Victory does not play a role in the School's educational activities.

In providing the above, Victory is paid a service fee in the amount equal to the total number of students multiplied by \$2,000. According to the service agreement with Victory, fees are payable on a bi-monthly basis. Any fee not paid within 30 days of its due date is payable with interest, except if Victory's acts or omissions cause such late payment. For the year ended June 30, 2009 the service fee expense was \$239,550 while the interest expense was \$19,164.

8. 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.



# **KOCH GROUP & COMPANY, LLP**

CERTIFIED PUBLIC ACCOUNTANTS

333 Seventh Avenue

New York, NY 10001

(212) 631-0700 FAX (212) 631-0109

## **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, 2009 and have issued a report thereon dated September 29, 2009. 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 in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operations that we consider to be material weaknesses.

### **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 for the information of the audit committee, management, and the Charter Schools Institute of the State University of New York 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 29, 2009