

PAVE ACADEMY CHARTER SCHOOL

FINANCIAL STATEMENTS

JUNE 30, 2012 AND 2011

PAVE ACADEMY CHARTER SCHOOL
FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

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INDEPENDENT AUDITORS' REPORT

TO THE BOARD OF TRUSTEES
PAVE ACADEMY CHARTER SCHOOL

We have audited the accompanying statement of financial position of PAVE Academy Charter School (the "School") (a not-for-profit corporation) as of June 30, 2012, and the related statements of activities, and cash flows for the 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. The prior year summarized comparative information has been derived from the School's 2011 financial statements and, in our report dated August 24, 2011, we expressed an unqualified opinion on those financial statements.

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 referred to above present fairly, in all material respects, the financial position of the School as of June 30, 2012, 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 August 30, 2012 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
August 30, 2012

PAVE ACADEMY CHARTER SCHOOL
STATEMENTS OF FINANCIAL POSITION
JUNE 30,

	2012	2011
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 734,614	\$ 667,481
Grants and contracts receivable	47,204	20,273
Prepaid expenses and other current assets	34,493	2,145
Total current assets	816,311	689,899
Other assets:		
Property and equipment, net of accumulated depreciation and amortization of \$263,042 and \$188,501, respectively	173,964	149,465
Restricted cash	75,575	75,376
Total other assets	249,539	224,841
TOTAL ASSETS	\$ 1,065,850	\$ 914,740
LIABILITIES AND UNRESTRICTED NET ASSETS		
Current liabilities:		
Accounts payable and accrued expenses	\$ 50,237	\$ 49,484
Accrued payroll and payroll taxes	153,793	178,814
Refundable advances	25,769	6,350
Total current liabilities	229,799	234,648
Unrestricted net assets	836,051	680,092
TOTAL LIABILITIES AND UNRESTRICTED NET ASSETS	\$ 1,065,850	\$ 914,740

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

PAVE ACADEMY CHARTER SCHOOL
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30,

	2012	2011
Revenue and support:		
State and local per pupil operating revenue	\$ 3,043,273	\$ 2,411,424
Federal grants	147,070	170,422
State and city grants	28,361	28,351
Contributions and grants	614,610	409,452
Donated goods and services	50,801	114,266
Interest income	1,113	1,331
Total revenue and support	3,885,228	3,135,246
Expenses:		
Program services		
Regular education	2,705,913	2,517,500
Special education	395,516	-
Total program expenses	3,101,429	2,517,500
Supporting services		
Management and general	627,840	546,281
Total expenses	3,729,269	3,063,781
Changes in unrestricted net assets	155,959	71,465
Unrestricted net assets - beginning of year	680,092	608,627
Unrestricted net assets - end of year	\$ 836,051	\$ 680,092

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

PAVE ACADEMY CHARTER SCHOOL
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30,

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase in unrestricted net assets	\$ 155,959	\$ 71,465
Adjustments to reconcile increase in unrestricted net assets to net cash provided by operating activities:		
Depreciation and amortization	74,541	75,095
Changes in certain assets and liabilities:		
(Increase) decrease in grants and contracts receivable	(26,931)	11,637
(Increase) decrease in prepaid expenses and other current assets	(32,348)	4,149
Increase in accounts payable and accrued expenses	753	11,849
(Decrease) increase in accrued payroll and payroll taxes	(25,021)	59,494
Increase in refundable advances	19,419	129
	166,372	233,818
NET CASH PROVIDED BY OPERATING ACTIVITIES	166,372	233,818
CASH FLOWS FROM INVESTING ACTIVITIES:		
(Increase) in restricted cash	(199)	(25,197)
Purchase of property and equipment	(99,040)	(81,611)
	(99,239)	(106,808)
NET CASH (USED IN) INVESTING ACTIVITIES	(99,239)	(106,808)
NET INCREASE IN CASH AND CASH EQUIVALENTS	67,133	127,010
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	667,481	540,471
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 734,614	\$ 667,481

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

PAVE ACADEMY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

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 220 students in kindergarten through fourth grade in the 2011-2012 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

The New York City Department of Education provides free lunches directly to some of the School's students. Such costs are not included in these financial statements. The School covers the unreimbursed 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). The School is subject to income taxes only on net unrelated business income. The School did not have any unrelated business income for the years ended June 30, 2012 and 2011

The School's accounting policy provides that a tax expense or benefit from an uncertain tax position may be recognized when it is more likely than not that the position will be sustained upon examination, including resolutions of any related appeals or litigation processes, based on the technical merits. The School has no uncertain tax position resulting in an accrual of tax expense or benefit.

PAVE ACADEMY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

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

Tax Status (Continued)

IRS Forms 990 filed by the School are subject to examination by the Internal Revenue Service up to three years from the extended due date of each return. Forms filed by the School are no longer subject to examination for the fiscal years ended June 30, 2008, and prior.

Basis of Presentation

The financial statement presentation follows the requirements of the Financial Accounting Standards Board ("FASB") in its Accounting Standards Codification ("ASC") No. 958-205 which provides guidance for the classification of net assets. The amounts for each of the three classes of net assets are based on the existence or absence of donor-imposed restrictions described as follows:

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.

The School has no temporary or permanently restricted net assets at June 30, 2012 and 2011.

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.

PAVE ACADEMY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

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

Revenue and support (Continued)

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.

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:

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

PAVE ACADEMY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

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

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.

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 2011 financial statements from which the summarized information was derived.

NOTE 2 - GRANTS AND CONTRACTS RECEIVABLE

Grants and contracts receivable consist of federal entitlements and grants. 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,

	2012	2011
Computers and Equipment	\$ 306,370	\$ 215,920
Furniture and Fixtures	71,123	62,533
Software	59,513	59,513
	437,006	337,966
Less: Accumulated depreciation and amortization	(263,042)	(188,501)
Total	\$ 173,964	\$ 149,465

Depreciation and amortization expense was \$74,541 and \$75,095 for the years ended June 30, 2012 and 2011 respectively.

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 years ended June 30, 2012 and 2011, there were no material transactions between Friends of PAVE and the School.

PAVE ACADEMY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

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 - DONATED 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 years ended June 30, 2012 and 2011, the value of such donated services amounted to \$50,801 and \$114,266 respectively.

The value of these donated goods and services is allocated accordingly between program, management and general services in the accompanying statements of activities and schedules of functional expenses.

PAVE ACADEMY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

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 \$38,521 and \$31,224 for the years ended June 30, 2012 and 2011, respectively.

NOTE 10 - SUBSEQUENT EVENTS

In preparing these financial statements, the School has evaluated events and transactions for potential recognition or disclosure through August 30, 2012, the date the financial statements were available to be issued.

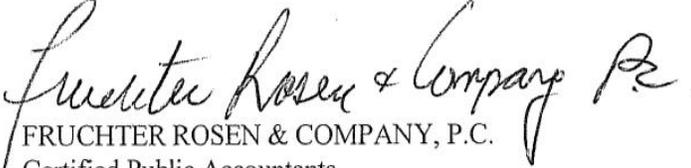
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INDEPENDENT AUDITORS' REPORT
ON SUPPLEMENTARY INFORMATION

TO THE BOARD OF TRUSTEES
PAVE ACADEMY CHARTER SCHOOL

We have audited the financial statements of PAVE Academy Charter School as of and for the year ended June 30, 2012, and have issued our report thereon dated August 30, 2012, which contained an unqualified opinion on those financial statements. Our audit was performed for the purpose of forming an opinion on the financial statements as a whole. The schedule of functional expenses is presented for the purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.


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

New York, New York
August 30, 2012

PAVE ACADEMY CHARTER SCHOOL
SCHEDULE OF FUNCTIONAL EXPENSES
FOR THE YEARS ENDED JUNE 30,

2012

	Regular Education	Special Education	Total Program Services	Management and General	Total	2011
Salaries and wages	\$ 1,720,589	\$ 251,498	\$ 1,972,087	\$ 377,035	\$ 2,349,122	\$ 1,854,309
Employee benefits and payroll taxes	391,127	57,171	448,298	85,708	534,006	415,816
Outside services and consulting	62,640	9,156	71,796	53,374	125,170	86,467
Instructional materials	204,561	29,901	234,462	-	234,462	155,712
Professional development	68,773	10,053	78,826	15,749	94,575	64,791
Student meals	3,128	457	3,585	-	3,585	1,509
Classroom and office supplies	37,542	5,487	43,029	4,613	47,642	57,522
Donated legal services	37,208	5,434	42,642	8,159	50,801	114,266
Auditing and accounting fees	-	-	-	18,973	18,973	18,660
Recruiting and marketing	31,567	4,614	36,181	4,861	41,042	62,340
Insurance	16,293	2,381	18,674	2,892	21,566	12,505
Maintenance and repairs	7,162	1,047	8,209	1,569	9,778	9,252
Non-capitalized equipment and technology	30,893	4,516	35,409	4,188	39,597	33,608
Postage, printing and shipping	14,418	2,107	16,525	3,160	19,685	19,371
Staff lunches and team building	8,774	1,282	10,056	27,014	37,070	47,472
Telephone and internet	9,134	1,335	10,469	2,002	12,471	14,968
Travel and conference	7,507	1,097	8,604	5,198	13,802	20,113
Depreciation and amortization	54,597	7,980	62,577	11,964	74,541	75,095
Miscellaneous	-	-	-	1,381	1,381	5
	<u>\$ 2,705,913</u>	<u>\$ 395,516</u>	<u>\$ 3,101,429</u>	<u>\$ 627,840</u>	<u>\$ 3,729,269</u>	<u>\$ 3,063,781</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, 2012, and have issued our report thereon dated August 30, 2012. 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 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 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, 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
August 30, 2012