

ROCKWELL CHARTER HIGH SCHOOL

**FINANCIAL STATEMENTS
AND OTHER REPORTS**

Year Ended June 30, 2010

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Rockwell Charter High School

We have audited the statement of financial position of Rockwell Charter High School (a Utah nonprofit organization) as of June 30, 2010, and the related statements of activities, cash flows, and functional expenses for the year then ended. These financial statements are the responsibility of Rockwell Charter High School's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized information has been derived from Rockwell Charter High School's 2009 financial statements and, in our report dated November 30, 2009, 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 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 Rockwell Charter High School as of June 30, 2010 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 November 23, 2010 on our consideration of Rockwell Charter High School's internal control over financial reporting and 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.

Handwritten signature in black ink that reads "Squire & Company, PC".

November 23, 2010

**ROCKWELL CHARTER HIGH SCHOOL
STATEMENT OF FINANCIAL POSITION**

June 30, 2010, with Comparative Totals for 2009

	2010	2009
Assets:		
Cash	\$ 276,140	\$ 520,061
Restricted for debt service:		
Cash	97,926	-
Investments	1,644,764	1,574,641
Receivables:		
Federal	12,919	13,836
Prepaid expenses	26,291	26,239
Bond issuance costs, net of accumulated amortization	376,224	390,723
Capital assets:		
Land	2,650,000	2,650,000
Buildings, improvements and equipment, net of accumulated depreciation	<u>9,343,313</u>	<u>9,516,605</u>
Total assets	14,427,577	14,692,105
Liabilities:		
Accounts payable	25,405	79,493
Payroll and related benefits payable	6,579	12,058
Unearned revenue:		
State	130,110	92,584
Accrued interest	354,572	357,711
Long-term liabilities:		
Portion due or payable within one year:		
Bonds payable	165,000	95,000
Notes payable	61,142	60,268
Portion due or payable after one year:		
Bonds payable	13,840,000	14,005,000
Notes payable	<u>119,000</u>	<u>185,661</u>
Total liabilities	14,701,808	14,887,775
Net Deficiency in Assets:		
Unrestricted	<u>\$ (274,231)</u>	<u>\$ (195,670)</u>

The accompanying notes are an integral part of this financial statement.

**ROCKWELL CHARTER HIGH SCHOOL
STATEMENT OF ACTIVITIES**

Year Ended June 30, 2010, with Comparative Totals for 2009

	2010	2009
Unrestricted Net Assets:		
Revenues and support:		
Local:		
Tuition and fees	\$ 58,296	\$ 123,159
Interest	3,043	6,449
Contributions	2,797	10,642
Other	6,052	3,510
State	2,822,807	3,225,668
Federal	493,219	296,879
Total revenues and support	<u>3,386,214</u>	<u>3,666,307</u>
Expenses:		
Program services:		
School	3,145,369	3,629,778
Supporting services:		
General	312,688	209,204
Fundraising	6,718	24,259
Total supporting services	<u>319,406</u>	<u>233,463</u>
Total expenses	<u>3,464,775</u>	<u>3,863,241</u>
Change in Unrestricted Net Assets	(78,561)	(196,934)
Net (Deficiency in) Assets at Beginning of Year	<u>(195,670)</u>	<u>1,264</u>
Net Deficiency in Assets at End of Year	<u><u>\$ (274,231)</u></u>	<u><u>\$ (195,670)</u></u>

The accompanying notes are an integral part of this financial statement.

**ROCKWELL CHARTER HIGH SCHOOL
STATEMENT OF CASH FLOWS**

Year Ended June 30, 2010, with Comparative Totals for 2009

	2010	2009
Cash Flows from Operating Activities:		
Change in net assets	\$ (78,561)	\$ (196,934)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation of capital assets	284,621	229,765
Amortization of bond issuance costs	14,499	13,290
Changes in operating assets and liabilities:		
Receivables	917	(5,323)
Prepaid expenses	(52)	48,761
Accounts payable	(54,088)	79,493
Payroll and related benefits payable	(5,479)	12,058
Unearned revenue	37,526	92,584
Accrued interest	(3,139)	356,900
Total adjustments	<u>274,805</u>	<u>827,528</u>
Net cash provided by operating activities	196,244	630,594
Cash Flows from Investing Activities:		
Purchases of capital assets	(111,329)	(12,394,269)
Purchases of investments	(70,123)	(1,574,641)
Net cash used by investing activities	(181,452)	(13,968,910)
Cash Flows from Financing Activities:		
Repayment of notes payable	(65,787)	(18,071)
Repayment of bonds payable	(95,000)	-
Proceeds from note payable	-	39,000
Proceeds from issuance of bonds payable	-	13,867,350
Payments for bond issuance costs	-	(171,363)
Net cash provided (used) by financing activities	<u>(160,787)</u>	<u>13,716,916</u>
Net Change in Cash	(145,995)	378,600
Cash at Beginning of Year	<u>520,061</u>	<u>141,461</u>
Cash at End of Year	<u>\$ 374,066</u>	<u>\$ 520,061</u>
As displayed on the statement of financial position:		
Cash	\$ 276,140	\$ 520,061
Cash restricted for debt service	97,926	-
	<u>\$ 374,066</u>	<u>\$ 520,061</u>

Supplemental Data:

Interest paid during 2010 totaled \$974,560.

The accompanying notes are an integral part of this financial statement.

**ROCKWELL CHARTER HIGH SCHOOL
STATEMENT OF FUNCTIONAL EXPENSES**

Year Ended June 30, 2010, with Comparative Totals for 2009

	Program Services	Supporting Services		Totals	
	School	General	Fundraising	2010	2009
Salaries	\$ 1,293,577	\$ 52,614	\$ 56	\$ 1,346,247	\$ 1,537,601
Employee benefits	459,793	5,770	1	465,564	490,835
Professional and technical services	19,809	66,221	7	86,037	53,292
Purchased property services	11,678	1,161	25	12,864	48,556
Other purchased services	28,187	49,191	62	77,440	83,083
Supplies	172,289	7,021	4,095	183,405	405,593
Property	4,581	9,466	8	14,055	137,782
Other	2,075	6,584	-	8,659	22,227
Interest	894,997	88,974	1,912	985,883	854,507
Depreciation	258,383	25,686	552	284,621	229,765
Total expenses	<u>\$ 3,145,369</u>	<u>\$ 312,688</u>	<u>\$ 6,718</u>	<u>\$ 3,464,775</u>	<u>\$ 3,863,241</u>

The accompanying notes are an integral part of this financial statement.

ROCKWELL CHARTER HIGH SCHOOL NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

Organization and Activities – Rockwell Charter High School (the School) was incorporated in the state of Utah on July 26, 2007 as a nonprofit organization involved in public education. The School operates a public charter school in Eagle Mountain, Utah, and serves 391 students from seven through grade twelve. The School provides *school* program services (instruction and related services). Supporting services include *general* (Board-related costs and central services) and *fundraising*.

Basis of Accounting – These financial statements have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, capital assets, payables, debt, and other liabilities in accordance with accounting principles generally accepted in the United States of America. Expenses are recorded when incurred.

Financial Statement Presentation – The School reports 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. Contributions received are recorded as increases in unrestricted, temporarily restricted, or permanently restricted net assets, depending on the existence and/or nature of any donor restrictions.

Income Taxes – The School is exempt from federal income tax under Section 501(a) of the Internal Revenue Code and is classified as a Section 501(c)(3) public charity. Also, the School is not subject to state income taxes.

Investments Restricted for Debt Service and Capital Improvements – Included in the proceeds of the bonds issued by the School (see Note 6) are amounts set aside in bond funds for the cost of certain capital improvements to facilities and debt service reserves. Deposits to and withdrawals from these bond funds are governed by the bond agreement. These bond funds are presented as restricted cash and investments and are measured at fair value (see Notes 2 and 3).

Accounts Receivable – The School's accounts receivable consists of amounts due from federal sources. No allowance for doubtful accounts has been established, as the School deems all amounts to be fully collectible.

Prepaid Expenses – The School has made payments for insurance that will be used in a future period.

Bond Issuance Costs – The School has capitalized certain costs associated with the issuance of its bonds payable. These costs are being amortized on a straight-line basis over the life of the bonds.

**ROCKWELL CHARTER HIGH SCHOOL
NOTES TO FINANCIAL STATEMENTS**

Capital Assets – Capital assets are recorded at cost (or, if donated, at the estimated fair value at the date of donation). Capital assets valued at \$1,000 or more are capitalized and depreciated, using the straight-line depreciation method, over the following estimated useful lives of the assets:

<u>Asset Class</u>	<u>Depreciable Lives (Years)</u>
Buildings and improvements	3 to 40
Equipment	3 to 7

Maintenance, repairs, and renewals, which neither materially add value to the property nor prolong its useful economic life, are charged to expense as incurred.

Donated Services – No amounts have been reflected in the financial statements for donated services. However, many individuals volunteer their time and perform a variety of tasks that assist the School with specific programs, administration, fundraising, and Board assignments. The School receives more than 3,480 volunteer hours per year.

Advertising – Advertising costs are charged to expense as incurred and totaled \$4,487 for the year ended June 30, 2010.

Revenue Recognition – Operating funds for the School are derived principally from federal and state sources. The School receives state funding based on the number of students enrolled in the School. The School also receives federal and state grants on a reimbursement basis. Accordingly, grant revenues are recognized when qualifying expenses have been incurred and all other grant requirements have been met. Amounts of restricted grants received in excess of qualifying expenditures are recorded as unearned revenue. When both restricted and unrestricted resources are available for use, it is the School’s policy to use restricted funds first, then unrestricted resources as they are needed.

Expense Allocation – The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities and statement of functional expenses. Directly identifiable expenses are charged to programs and supporting services. Expenses (such as facilities costs, depreciation, and interest expense) related to more than one function are charged to programs and supporting services based on direct costs.

Estimates – Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported amounts of revenues and support and expenses. Actual results could differ from those estimates.

Budgetary Information – The School submits a Board-approved annual budget to the Office of the Utah State Auditor in accordance with state requirements. The Board may amend the annual budget prior to year end. The budget is prepared on a modified accrual basis of accounting (similar to the basis of accounting used by governmental funds of a local

ROCKWELL CHARTER HIGH SCHOOL NOTES TO FINANCIAL STATEMENTS

government). Revenues are budgeted by source. Expenditures are budgeted by function and object and program.

Note 2. Concentrations

Cash Deposits – At June 30, 2010, the School’s book balance of cash accounts totaled \$374,066 (\$97,926 is restricted for debt service) and the bank balance was \$448,588, of which \$347,926 was covered by federal depository insurance.

Investments – Investments consist of the following restricted accounts at June 30, 2010:

Bond investment accounts:	
Principal and interest fund	\$ 539,922
Debt service reserve fund	1,053,029
Tax and insurance escrow fund	4,144
Project fund	18,686
Repair and replacement fund	28,983
Total	<u>\$ 1,644,764</u>

The School has invested in a mutual fund. The mutual fund is primarily comprised of high-quality U.S. government securities. The mutual fund is rated at Aaa by Moody’s Investors Service and AAAM by Standard & Poor’s. The investments are held in the name of the School by a financial institution as required by the bond agreement (see Note 6). The mutual fund portfolio is collateralized by the underlying securities and is not otherwise insured. The School has \$1,644,764 invested in the mutual fund at June 30, 2010.

Revenue and Support – The majority of the School’s revenue and support comes from the U.S. Department of Education (passed through the Utah State Office of Education) and the state of Utah. Federal and state revenues are 98 percent of total revenue and support for the year ended June 30, 2010.

Note 3. Fair Value Measurements

As described in Notes 1 and 2, the School uses various methods to measure the fair value of its investments on a recurring basis. Generally accepted accounting principles establish a hierarchy that prioritizes inputs to valuation methods. The three levels of the fair value hierarchy are as follows:

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the School has the ability to access at the measurement date.

Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 inputs are unobservable inputs for the asset or liability.

**ROCKWELL CHARTER HIGH SCHOOL
NOTES TO FINANCIAL STATEMENTS**

The inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes, the level in the fair value hierarchy within which the fair value measurement falls in its entirety, is determined based on the lowest level input that is significant to the fair value measurement in its entirety.

A description of the valuation techniques applied to the School's major categories of assets and liabilities measured at fair value on a recurring basis follows:

Mutual Funds – Valued at the net asset value (NAV) of shares held by the School at year end.

All investments held by the School at June 30, 2010 are categorized in Level 1 of the fair value hierarchy. There have been no changes in valuation techniques and related inputs.

Note 4. Capital Assets

Capital asset activity for the year ended June 30, 2010 is as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Capital assets not being depreciated:				
Land	\$ 2,650,000	\$ -	\$ -	\$ 2,650,000
Capital assets being depreciated:				
Buildings and improvements	9,600,227	-	-	9,600,227
Equipment	<u>146,235</u>	<u>111,329</u>	<u>-</u>	<u>257,564</u>
Total capital assets being depreciated	9,746,462	111,329	-	9,857,791
Accumulated depreciation for:				
Buildings and improvements	(200,775)	(240,931)	-	(441,706)
Equipment	<u>(29,082)</u>	<u>(43,690)</u>	<u>-</u>	<u>(72,772)</u>
Total accumulated depreciation	<u>(229,857)</u>	<u>(284,621)</u>	<u>-</u>	<u>(514,478)</u>
Total capital assets being depreciated, net	<u>9,516,605</u>	<u>(173,292)</u>	<u>-</u>	<u>9,343,313</u>
Total capital assets, net	<u>\$ 12,166,605</u>	<u>\$ (173,292)</u>	<u>\$ -</u>	<u>\$11,993,313</u>

Depreciation expense was \$284,621 for the year ended June 30, 2010.

**ROCKWELL CHARTER HIGH SCHOOL
NOTES TO FINANCIAL STATEMENTS**

Note 5. Retirement Plans

The School participates in a deferred compensation plan – under Internal Revenue Code Section 401(k). Employer contributions to the plan are determined by the School’s Board on an annual basis. All full-time employees are eligible to participate in the plan. For the year ended June 30, 2010, the School elected to contribute 7 percent of the gross wages of eligible employees to the plan. During the year ended June 30, 2010, the School contributed \$57,265 to employee accounts. Employees can make additional contributions. For the year ended June 30, 2010, employees contributed \$37,452. Employer and employee contributions were paid during the year or shortly thereafter. The 401(k) plan funds are 50 percent vested to the participants after one year and fully vested after the second year of employment.

Note 6. Long-term Liabilities

Changes in long-term liabilities for the year ended June 30, 2010 are as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable	\$ 14,100,000	\$ -	\$ (95,000)	\$ 14,005,000	\$ 165,000
Notes payable	245,929	-	(65,787)	180,142	61,142
Total long-term liabilities	<u>\$ 14,345,929</u>	<u>\$ -</u>	<u>\$ (160,787)</u>	<u>\$ 14,185,142</u>	<u>\$ 226,142</u>

Bonds Payable – The School purchased its facilities by issuing \$14,100,000 of bonds on August 19, 2008. The bonds were issued through the Utah State Charter School Finance Authority. The average interest rate on the bonds is 7 percent.

Bond proceeds of \$1,133,513 were placed in a debt reserve fund. These funds along with all interest earnings will be used for the payment of principal and interest in the event other bond funds are insufficient to make such payments when due. Bond proceeds of \$293,746 were placed in a principal and interest fund and \$991,145 in a construction fund. The remaining bond proceeds of \$11,681,596 were used to purchase the School’s facilities and pay bond issuance costs.

**ROCKWELL CHARTER HIGH SCHOOL
NOTES TO FINANCIAL STATEMENTS**

The future debt service of the bonds is summarized as follows:

Year Ending June 30,	Principal	Interest	Total
2011	\$ 165,000	\$ 959,963	\$ 1,124,963
2012	175,000	948,206	1,123,206
2013	190,000	935,888	1,125,888
2014	200,000	922,725	1,122,725
2015	215,000	908,719	1,123,719
2016 - 2020	1,315,000	4,297,244	5,612,244
2021 - 2025	1,830,000	3,770,912	5,600,912
2026 - 2030	2,525,000	3,041,675	5,566,675
2031 - 2035	3,530,000	2,002,000	5,532,000
2036 - 2039	3,860,000	567,350	4,427,350
	<u>\$ 14,005,000</u>	<u>\$ 18,354,682</u>	<u>\$ 32,359,682</u>

In conjunction with the bonds, the School incurred issuance costs of \$404,013. Amortization expense relating to issuance costs is \$14,499 for the year ended June 30, 2010. Accumulated amortization is \$27,789 at June 30, 2010.

Notes Payable – During 2008, the School borrowed \$225,000 from the Utah State Office of Education to finance the purchase of equipment. During 2009, the School borrowed an additional \$39,000. The notes bear interest at 1.44 percent and require monthly principal and interest payments of \$5,741. The future debt service of the notes is summarized as follows:

Year Ending June 30,	Principal	Interest	Total
2011	\$ 61,142	\$ 2,155	\$ 63,297
2012	67,627	1,187	68,814
2013	51,373	247	51,620
	<u>\$ 180,142</u>	<u>\$ 3,589</u>	<u>\$ 183,731</u>

Note 7. Related Party Transactions

The School has entered into the following transactions with related individuals:

The School paid relatives of board members \$37,898 for services provided to the School during the year ended June 30, 2010. No amounts were payable to these individuals at June 30, 2010.

ROCKWELL CHARTER HIGH SCHOOL NOTES TO FINANCIAL STATEMENTS

The School paid \$25,740 to an individual related to the School's business manager for services provided to the School during the year ended June 30, 2010. No amounts were payable to this individual at June 30, 2010.

Note 8. Risk Management

The School is exposed to various risks of loss related to torts, errors and omissions, property, employee health, workers' compensation, and unemployment for which the School carries commercial insurance. For these programs, there have been no significant reductions in insurance coverage. Settlement amounts have not exceeded insurance coverage for each of the past two years.

Note 9. Commitments and Contingencies

Management Agreement – The School entered into a one-year agreement with Harmony Educational Services, Inc. whereby Harmony agrees to provide certain fiscal and administrative services to the School for the year ending June 30, 2011. Harmony receives compensation based on student enrollment. The School paid \$51,661 for these services during 2010.

Litigation – During 2009, a legal action was filed against the School by the City of Eagle Mountain (the City) related to unpaid impact fees. The City is seeking \$199,298 in damages. The School believes the claim is without merit and has not accrued any loss contingency as the responsibility for the unpaid fees resides with the developer of the School's facilities and were incurred prior to the School's acquisition of its facilities. Although the School believes it has an excellent defense against the suit, the ultimate resolution of the matter, which is expected to occur within one year, could result in a loss of up to \$199,298.

Note 10. Financial Condition

During 2010, the School experienced a decrease in net assets of \$78,561 and total liabilities exceeded total assets by \$274,231. Management is developing a plan to increase enrollment and decrease expenditures as a way of improving its financial condition. The ability of the School to improve its financial condition is dependent on the success of management's plans. The financial statements do not include any adjustments that might be necessary if management's plans are not successful.

Note 11. Subsequent Events

The School has evaluated subsequent events through November 23, 2010, the date the financial statements were available to be issued.



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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*

Board of Directors
Rockwell Charter High School

We have audited the financial statements of Rockwell Charter High School (the School) as of and for the year ended June 30, 2010, and have issued our report thereon dated November 23, 2010. 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

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 a 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 significant deficiency is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying list of findings and letter to management as item 2010-1 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School's 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*.

We noted certain other matters that we have reported to management of the School in the accompanying list of findings and letter to management dated November 23, 2010.

Management's response to the findings identified in our audit is described in the accompanying list of findings and letter to management. We did not audit management's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board of Directors, management, Office of the Utah State Auditor, and Utah State Office of Education and other awarding and pass-through agencies and is not intended to be and should not be used by anyone other than these specified parties.

Handwritten signature in black ink that reads "Agui & Company, PC". The signature is written in a cursive, flowing style.

November 23, 2010



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Independent Auditor's Report on Legal Compliance
in Accordance with the *State of Utah*
Legal Compliance Audit Guide

Board of Directors
Rockwell Charter High School

We have audited the compliance of Rockwell Charter High School (the School) with general and major state program compliance requirements described in the *State of Utah Legal Compliance Audit Guide* for the year ended June 30, 2010.

The general compliance requirements applicable to the School are identified as follows:

- Cash Management
- Purchasing Requirements
- Budgetary Compliance
- Other General Issues

The School's major state programs are identified as follows:

- Minimum School Program (passed through the Office of Education)

Compliance with the requirements referred to above is the responsibility of the School's management. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *State of Utah Legal Compliance Audit Guide*. Those standards and guide require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the requirements referred to above that could have a material effect on a general compliance requirement identified above or a major state program occurred. An audit includes examining, on a test basis, evidence about the School's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the School's compliance with those requirements.

As described in item 2010-2 in the accompanying list of findings and letter to management, the School did not comply with the requirements regarding program accounting that are applicable to its Minimum School Program funding. Compliance with such requirements is necessary, in our opinion, for the School to comply with state laws and regulations or the requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, Rockwell Charter High School complied, in all material respects, with the general compliance requirements identified above and the compliance requirements that are applicable to each of its major state programs for the year ended June 30, 2010.

We noted certain other matters that we have reported to management of the School in the accompanying list of findings and letter to management dated November 23, 2010.

Management's response to the findings identified in our audit is described in the accompanying list of findings and letter to management. We did not audit management's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board of Directors, management, Office of the Utah State Auditor, and Utah State Office of Education and other awarding and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Agui & Company, PC

November 23, 2010



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List of Findings and Letter to Management

November 23, 2010

Board of Directors
Rockwell Charter High School

In planning and performing our audit of the financial statements of Rockwell Charter High School (the School) for the year ended June 30, 2010, we noted certain matters for your consideration. This letter lists our findings and summarizes our comments and recommendations regarding those matters. This letter does not affect our report dated November 23, 2010 on the financial statements of the School. This letter accompanies our reports dated November 23, 2010 in accordance with *Government Auditing Standards* and the *State of Utah Legal Compliance Audit Guide*.

Significant Deficiency

2010-1 – *Audit Adjustments* – Significant adjustments were required to correct cash and investment accounts, accounts payable and payroll liabilities and to correctly categorize certain expenses. We recommend that accounting personnel review account balances to ensure they are correct. We also recommend management review of financial reports regularly to ensure their accuracy.

Management's Response – The School will make changes to ensure improvements are made in their accounting processes and reporting to ensure greater accuracy.

Reportable Instance of Noncompliance

2010-2 – *Program Accounting* – The School is following the recommended chart of accounts with regard to function and object. However, certain direct costs to programs were not charged to the appropriate program as the transactions occurred. State and Federal cost principles should be followed.

Management's Response – The School will make changes to ensure that program costs are accounted for in the accounting system and that costs are charged to appropriate function and program as the transactions occur.

Certain Other Matters

Maintenance of Effort – The School is required to maintain the level of effort for its state special education program funding. While state special education funding decreased, the School did not maintain the level of effort required by supplementing the special education program with additional state unrestricted or local funds. We recommend the School monitor its state special education program funding budget and ensure that the appropriate level of effort is maintained in the future.

Management's Response – The School will make changes to ensure that maintenance of effort requirements are met for special education.

Budgeting – The School’s actual revenues were significantly less than budgeted revenues and actual expenditures exceeded budgeted expenditures. We recommend that management carefully analyze the budget and submit a final budget for Board approval based on changes encountered during the school year.

Management’s Response – The School will make changes to ensure that program costs budgets are prepared to reflect actual revenues.

Insurance Disclosure – The School provided employees with the required legal liability coverage insurance disclosures required under Section 63A-4-204.5; however, the School did not require employees to sign a document acknowledging that the employee understands the legal liability protection provided to the employee and what is not covered. We recommend implementing processes to ensure that receipt of such information is obtained and retained in the employee’s file.

Management’s Response – The School will provide the acknowledgement and require employees to sign a document acknowledging their receipt of the required disclosures. The School will retain this documentation in the employee’s file.

Student Store – We noted that the School operates a student store. There are few controls in place to account for store inventory. In addition, the School is not reporting store inventory as an asset of the School. Sales of store items are subject to state sales tax, which is not currently being charged or remitted. We recommend the School implement processes and procedures to properly account for the activities of the student store.

Management’s Response – The School will review control systems and implement effective controls to monitor sales and recognize store inventory and sales.

The status of these matters will be reviewed as part of your next audit. Management is responsible for implementing and monitoring internal control. Monitoring includes performing risk assessments and ongoing evaluations, making recommendations for improvement as necessary, providing timely response to findings and deficiencies, and reporting results periodically to the Board.

We appreciated the assistance of School personnel during the audit.



Squire & Company, PC