

SOUTH BRONX CLASSICAL CHARTER SCHOOL

FINANCIAL STATEMENTS

JUNE 30, 2010

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INDEPENDENT AUDITORS' REPORT

TO THE BOARD OF TRUSTEES
SOUTH BRONX CLASSICAL CHARTER SCHOOL

We have audited the accompanying statement of financial position of South Bronx Classical Charter School (the "School") (a not-for-profit corporation) as of June 30, 2010 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.

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, 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 August 24, 2010 on our consideration of the School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and on compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.


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

New York, New York
August 24, 2010

SOUTH BRONX CLASSICAL CHARTER SCHOOL
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2010

ASSETS

Current assets:

Cash and cash equivalents	\$ 2,819,202
Grants and contracts receivable	61,692
Prepaid expenses	4,806
Total current assets	2,885,700

Property and equipment, net of accumulated depreciation and amortization of \$276,004	263,745
Restricted cash	70,674
	70,674

TOTAL ASSETS	\$ 3,220,119
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LIABILITIES AND UNRESTRICTED NET ASSETS

Current liabilities:

Accounts payable and accrued expenses	\$ 58,821
Accrued payroll and payroll taxes	158,808
Total current liabilities	217,629

Contingency	-
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Unrestricted net assets:

Undesignated	2,702,490
Board-designated for facility fund	300,000
Total unrestricted net assets	3,002,490

TOTAL LIABILITIES AND UNRESTRICTED NET ASSETS	\$ 3,220,119
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The accompanying notes are an integral part of the financial statements.

SOUTH BRONX CLASSICAL CHARTER SCHOOL
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2010

Revenue and support:	
State and local per pupil operating revenue	\$ 3,471,523
Federal grants	285,532
State and city grants	36,806
Contributions	29,450
Interest income	7,710
Total revenue and support	3,831,021
Expenses:	
Program services	
Regular education	2,313,779
Special education	170,850
Total program services	2,484,629
Supporting services	
Management and general	499,022
Fundraising	3,500
Total expenses	2,987,151
Change in unrestricted net assets	843,870
Unrestricted net assets - beginning of year	2,158,620
Unrestricted net assets - end of year	\$ 3,002,490

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

SOUTH BRONX CLASSICAL CHARTER SCHOOL
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2010

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in unrestricted net assets	\$ 843,870
Adjustments to reconcile change in unrestricted net assets to net cash provided by operating activities:	
Depreciation and amortization	111,810
Abandonment of property and equipment	(1,114)
Changes in certain assets and liabilities:	
Decrease in grants and contracts receivable	51,398
Decrease in in prepaid expenses	19,279
(Increase) in restricted cash	(70,674)
Increase in accounts payable and accrued expenses	3,816
Increase in accrued payroll and payroll taxes	<u>40,380</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	998,765
CASH FLOWS FROM INVESTING ACTIVITY	
Purchase of property and equipment	<u>(90,730)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	908,035
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>1,911,167</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u><u>\$ 2,819,202</u></u>

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

SOUTH BRONX CLASSICAL CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

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

Nature of Organization

South Bronx Classical Charter School (the "School") is a New York State, not-for-profit educational corporation that was incorporated on October 7, 2005 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 October 7, 2005, 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's mission is to provide its students with a solid foundation for academic success, through achievement that exceeds citywide averages and meets or exceeds New York State standards and national norms in all curriculum areas tested, especially in mathematics and language arts. The School provided education to approximately 270 students in kindergarten through fourth grade in the 2009-2010 academic year.

The School shares space with a New York City public school beginning in August 2006. 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. As of June 30, 2010, the Board of Trustees has designated \$300,000 as a facility fund to be available to meet future needs of the School.

Food and Transportation

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. The Office of Pupil Transportation provides free transportation to the majority of the students during the district's school days.

Tax Status

The School is exempt from Federal income tax under Section 501(a) of the Internal Revenue Code as a School described in Section 501(c)(3) and a similar provision under New York State income tax laws. The School has also been classified as an entity that is not a private foundation within the meaning of Section 509(a) and qualifies for deductible contributions as provided in section 170(b)(1)(A)(ii).

Basis of Presentation

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:

SOUTH BRONX CLASSICAL CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

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

Basis of Presentation (Continued)

Unrestricted

Unrestricted net assets of the School are assets whose use has not been restricted by an outside donor or by law. The unrestricted net assets represent the portion of expendable funds that are available for the support of the operations of the School.

Temporarily Restricted

Temporarily restricted net assets are used to differentiate resources, the use of which is restricted by donors or grantors to a specific time or period or for a specific purpose. Temporarily restricted gifts are recorded as additions to temporarily restricted net assets in the period received. When restricted net assets are expended for their stipulated purpose, temporarily restricted net assets become unrestricted net assets and are reported in the statements of activities as net assets released from restrictions.

Permanently Restricted

Permanently restricted net assets are those contributions and other inflows of assets whose use by the School is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled or otherwise removed by actions of the School. The income derived from these permanently restricted funds is usually classified as unrestricted and can be used for the general purpose of the School.

The School has no temporarily or permanently restricted net assets at June 30, 2010.

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.

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.

SOUTH BRONX CLASSICAL CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

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

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Cash and Cash Equivalents

For the purpose of the Statement of Cash Flows, the School considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Concentration of Credit Risk

Financial instruments which potentially subject the School to concentrations of credit risk are cash and cash equivalents. The School places its cash and cash equivalents on deposit in what it believes to be highly credited financial institutions. Cash balances may exceed the FDIC insured levels of \$250,000 per institution at various times during the year. The School believes that there is little risk in any losses and has not experienced any losses in such accounts.

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:

Furniture and fixtures	7 years
Computer equipment	5 years
Library books	3 years
Software	5 years

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.

Deferred Revenue

The School records certain government operating revenue as deferred revenue until related services are performed, at which time they are recognized as revenue.

SOUTH BRONX CLASSICAL CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

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

Recent Accounting Pronouncements

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

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

NOTE 2 - GRANTS AND CONTRACTS RECEIVABLE

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

NOTE 3 - PROPERTY AND EQUIPMENT

Furniture and fixtures	\$ 168,547
Computer equipment	157,638
Library books	161,468
Software	<u>52,096</u>
	539,749
Less: Accumulated depreciation and amortization	<u>276,004</u>
	<u>\$ 263,745</u>

Depreciation and amortization expense was \$111,810 for the year ended June 30, 2010.

SOUTH BRONX CLASSICAL CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 4 - RELATED PARTY TRANSACTIONS

The School is an affiliate of Friends of South Bronx Classical Inc. (“Friends of SBC”), a New York State not-for-profit corporation. Friends of SBC supports the School through technical and financial assistance. There were no transactions between the School and Friends of SBC for the year ended June 30, 2010, and there were no outstanding balances due from/to Friends of SBC at June 30, 2010. Friends of SBC ceased operations during the year ended June 30, 2010.

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 EXPENSE

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 - 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 4% to the plan. The amount charged to operations for fees and matching contributions to this plan amounted to \$26,050 for the year ended June 30, 2010.

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INDEPENDENT AUDITORS' REPORT
ON ADDITIONAL INFORMATION

TO THE BOARD OF TRUSTEES
SOUTH BRONX CLASSICAL CHARTER SCHOOL

Our report on our audit of the basic financial statements of South Bronx Classical Charter School (a not-for-profit corporation) for year ended June 30, 2010 appears on page 1. We conducted our audit in accordance with auditing standards generally accepted in the United States of America for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedule of functional expenses is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements as a whole.


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

New York, New York
August 24, 2010

SOUTH BRONX CLASSICAL CHARTER SCHOOL
SCHEDULE OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2010

	Regular Education	Special Education	Total Program Service	Management and General	Fundraising	Total
Salaries	\$ 1,624,051	\$ 83,251	\$ 1,707,302	\$ 311,004	\$ -	\$ 2,018,306
Benefits and taxes	327,015	16,655	343,670	62,559	-	406,229
Staff development	26,501	1,133	27,634	5,860	-	33,494
Consultants - Education	61,132	56,733	117,865	-	-	117,865
Consultants - Professional	-	-	-	20,113	3,500	23,613
Accounting/Auditing Fees	-	-	-	20,280	-	20,280
Textbooks/Curriculum	28,879	1,235	30,114	-	-	30,114
Student transportation	10,357	443	10,800	-	-	10,800
Food	17,769	760	18,529	-	-	18,529
Communication/Technology	20,563	1,054	21,617	4,088	-	25,705
Equipment rental/Lease	17,809	913	18,722	3,540	-	22,262
Printing and copying	900	46	946	179	-	1,125
Marketing/Recruiting	5,195	266	5,461	1,033	-	6,494
Supplies and materials	57,013	2,437	59,450	37,745	-	97,195
Travel	1,003	-	1,003	251	-	1,254
Insurance	20,481	1,050	21,531	4,070	-	25,601
Facility	4,507	231	4,738	895	-	5,633
Repairs and maintenance	1,156	59	1,215	230	-	1,445
Depreciation and amortization	89,448	4,584	94,032	17,778	-	111,810
Miscellaneous	-	-	-	9,397	-	9,397
Total expenses	<u>\$ 2,313,779</u>	<u>\$ 170,850</u>	<u>\$ 2,484,629</u>	<u>\$ 499,022</u>	<u>\$ 3,500</u>	<u>\$ 2,987,151</u>

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
SOUTH BRONX CLASSICAL CHARTER SCHOOL

We have audited the financial statements of South Bronx Classical Charter School (“the School”) as of and for the year ended June 30, 2010, and have issued our report thereon dated August 24, 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.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, 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
SOUTH BRONX CLASSICAL CHARTER SCHOOL

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 matters that we reported to the management of the School in a separate letter dated August 24, 2010.

This report is intended solely for the information and use of management, Board of Trustees, federal, state and local awarding agencies, The Department of Education of the City of New York, The State Education Department of the State University of New York, and others within the School and is not intended to be and should not be used by anyone other than these specified parties.


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

New York, New York
August 24, 2010