

**SOUTH BRONX CHARTER SCHOOL FOR  
INTERNATIONAL CULTURES AND THE ARTS**

**FINANCIAL STATEMENTS**

**JUNE 30, 2009 AND 2008**

SOUTH BRONX CHARTER SCHOOL FOR INTERNATIONAL CULTURES  
AND THE ARTS

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## INDEPENDENT AUDITORS' REPORT

To The Board of Trustees  
South Bronx Charter School for International Cultures and the Arts  
Bronx, New York

We have audited the accompanying statements of financial position of South Bronx Charter School for International Cultures and the Arts at June 30, 2009 and 2008, and the related statements of activities, functional expenses and cash flows for the years then ended. These financial statements are the responsibility of the School's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the 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 audits provide 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 South Bronx Charter School for International Cultures and the Arts at June 30, 2009 and 2008, and the results of its operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report, dated October 28, 2009 on our consideration of the 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 results of 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.

*Grassi & Co., CPAs, P.C.*

GRASSI & CO., CPAs, P.C.

Lake Success, New York  
October 28, 2009

SOUTH BRONX CHARTER SCHOOL FOR INTERNATIONAL CULTURES AND THE ARTS  
 STATEMENTS OF FINANCIAL POSITION  
 JUNE 30, 2009 AND 2008

ASSETS

	<u>2009</u>	<u>2008</u>
Cash	\$ 102,213	\$ 12,578
Restricted cash	230,000	-
Receivables from governmental agencies, net of allowance for doubtful accounts of \$0	220,438	285,211
Prepaid and other assets	48,149	16,259
Property and equipment - net	<u>3,352,165</u>	<u>3,021,711</u>
 Total Assets	 <u>\$ 3,952,965</u>	 <u>\$ 3,335,759</u>

LIABILITIES AND NET ASSETS

<b>Liabilities</b>		
Notes payable	\$ 1,900,000	\$ 1,900,000
Accounts payable	50,604	122,614
Due to management company	1,132,206	508,260
Accrued salaries and benefits	419,598	179,754
Accrued expenses	165,087	44,532
Obligation under capital lease	<u>25,076</u>	<u>1,443</u>
 Total Liabilities	 <u>3,692,571</u>	 <u>2,756,603</u>
 <b>Contingencies</b>		
<b>Net Assets</b>		
Unrestricted	<u>260,394</u>	<u>579,156</u>
 Total Liabilities and Net Assets	 <u>\$ 3,952,965</u>	 <u>\$ 3,335,759</u>

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

SOUTH BRONX CHARTER SCHOOL FOR INTERNATIONAL CULTURES AND THE ARTS  
STATEMENTS OF ACTIVITIES  
FOR THE YEARS ENDED JUNE 30, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
<b>REVENUE AND SUPPORT:</b>		
Resident student enrollment	\$ 3,927,011	\$ 2,966,964
Federal funding	269,957	182,889
NYS Stimulus Facility financing grant	-	100,000
State funding	237,832	197,099
Contributions-in-kind	413,253	-
Food service	127,799	101,721
Students with disabilities	8,609	2,574
Government grants	7,676	29,325
Contributions	1,970	-
Interest income	267	6,170
	<u>4,994,374</u>	<u>3,586,742</u>
 <b>Total Revenue and Support</b>		
 <b>EXPENSES:</b>		
<b>Program Services</b>		
Regular education	4,070,900	2,629,621
Special education	169,620	108,635
	<u>4,240,520</u>	<u>2,738,256</u>
 <b>Supporting Services</b>		
Management and general	1,072,616	745,317
	<u>1,072,616</u>	<u>745,317</u>
<b>Total Expenses</b>	<u>5,313,136</u>	<u>3,483,573</u>
 Change in unrestricted net assets	 (318,762)	 103,169
Net Assets, Beginning of Year	<u>579,156</u>	<u>475,987</u>
Net Assets, End of Year	<u>\$ 260,394</u>	<u>\$ 579,156</u>

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

SOUTH BRONX CHARTER SCHOOL FOR INTERNATIONAL CULTURES AND THE ARTS  
STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED JUNE 30, 2009

	Program Services			Management & General	Total 2009
	Regular Education	Special Education	Total Program		
<b>EXPENSES:</b>					
<b>Personnel Expenses</b>					
Salaries and Wages	\$ 1,969,748	\$ 82,073	\$ 2,051,821	\$ 0	\$ 2,051,821
Fringe Benefits	431,715	17,988	449,703	0	449,703
<b>Total Personnel Expense</b>	<u>2,401,463</u>	<u>100,061</u>	<u>2,501,524</u>	<u>0</u>	<u>2,501,524</u>
<b>OPERATING EXPENSES:</b>					
Contracted Services - Management Company	0	0	0	864,277	864,277
Consultants - Other	1,720	72	1,792	0	1,792
Food	156,046	6,502	162,548	0	162,548
Insurance	45,314	1,888	47,202	0	47,202
Supplies and Materials	93,586	3,899	97,485	0	97,485
Textbooks	93,308	3,888	97,196	0	97,196
Telephone	8,772	365	9,137	0	9,137
Occupancy	832,672	34,695	867,367	0	867,367
Printing	1,428	59	1,487	0	1,487
Staff Development	188,323	7,847	196,170	0	196,170
Equipment Rental/Lease	3,565	149	3,714	0	3,714
Legal	0	0	0	37,502	37,502
Accounting/Audit Fee	0	0	0	22,023	22,023
Maintenance and Repairs	9,824	409	10,233	0	10,233
Transportation (Student)	75,041	3,127	78,168	0	78,168
Travel	3,409	142	3,551	0	3,551
Depreciation	62,840	2,618	65,458	0	65,458
Advertising	4,712	196	4,908	0	4,908
Administrative Fees	18,268	761	19,029	0	19,029
Real Estate Taxes	41,066	1,711	42,777	0	42,777
Interest	0	0	0	148,814	148,814
Other	29,543	1,231	30,774	0	30,774
<b>Total Operating Expense</b>	<u>1,669,437</u>	<u>69,559</u>	<u>1,738,996</u>	<u>1,072,616</u>	<u>2,811,612</u>
<b>Total Expenses</b>	<u>\$ 4,070,900</u>	<u>\$ 169,620</u>	<u>\$ 4,240,520</u>	<u>\$ 1,072,616</u>	<u>\$ 5,313,136</u>

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

SOUTH BRONX CHARTER SCHOOL FOR INTERNATIONAL CULTURES AND THE ARTS  
STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED JUNE 30, 2008

	Program Services			Management & General	Total
	Regular Education	Special Education	Total Program		
<b>EXPENSES:</b>					
<b>Personnel expenses</b>					
Salaries	\$ 1,373,672	\$ 56,632	\$ 1,430,304	\$ 0	\$ 1,430,304
Fringe Benefits	262,458	10,875	273,333	0	273,333
Total Personal Expense	<u>1,636,130</u>	<u>67,507</u>	<u>1,703,637</u>	<u>0</u>	<u>1,703,637</u>
<b>OPERATING EXPENSES:</b>					
Contracted Services - Management Company	0	0	0	652,048	652,048
Consultants - Other	1,108	46	1,154	0	1,154
Food	124,645	5,134	129,779	0	129,779
Insurance	38,653	1,594	40,247	0	40,247
Supplies and Materials	99,884	4,321	104,205	0	104,205
Textbooks	218,687	9,016	227,703	0	227,703
Telephone	7,591	313	7,904	0	7,904
Occupancy	29,345	1,223	30,568	0	30,568
Printing	12,112	499	12,611	0	12,611
Staff Development	150,704	6,197	156,901	0	156,901
Equipment Rental/Lease	6,487	267	6,754	0	6,754
Legal	0	0	0	12,500	12,500
Accounting/Audit Fee	0	0	0	20,355	20,355
Bridge Loan Financing	0	0	0	50,451	50,451
Maintenance and Repairs	12,805	587	13,392	0	13,392
Transportation (Student)	54,395	2,243	56,638	0	56,638
Travel	17,834	772	18,606	0	18,606
Depreciation	50,274	2,095	52,369	0	52,369
Advertising	21,801	809	22,610	0	22,610
Administrative Fees	15,112	623	15,735	0	15,735
Interest	91,543	3,774	95,317	9,963	105,280
Other	40,511	1,615	42,126	0	42,126
Total Operating Expense	<u>993,491</u>	<u>41,128</u>	<u>1,034,619</u>	<u>745,317</u>	<u>1,779,936</u>
Total Expenses	<u>\$ 2,629,621</u>	<u>\$ 108,635</u>	<u>\$ 2,738,256</u>	<u>\$ 745,317</u>	<u>\$ 3,483,573</u>

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

SOUTH BRONX CHARTER SCHOOL FOR INTERNATIONAL CULTURES AND THE ARTS  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED JUNE 30, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Cash received from resident student enrollment funding	\$ 3,927,011	\$ 2,966,964
Cash received from federal funding	334,730	182,889
Cash received from state funding	237,832	471,077
Cash received from food service program	127,799	101,721
Cash received from students with disabilities program	8,609	2,574
Cash received from government grants	7,676	29,325
Cash received from contributions	1,970	-
Interest income received	<u>267</u>	<u>6,170</u>
Cash Provided By Operating Activities	<u>4,645,894</u>	<u>3,760,720</u>
Cash paid for regular education program	(3,365,099)	(2,433,746)
Cash paid for special education program	(140,211)	(106,540)
Cash paid for management and general expenses	<u>(688,670)</u>	<u>(524,553)</u>
Cash Disbursed For Operating Activities	<u>(4,193,980)</u>	<u>(3,064,839)</u>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u>451,914</u>	<u>695,881</u>
 <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Increase in restricted cash	(230,000)	-
Purchase of property and equipment	<u>(357,912)</u>	<u>(839,781)</u>
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<u>(587,912)</u>	<u>(839,781)</u>
 <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Advances from management company	240,000	135,000
Principal payments of obligations under capital lease	<u>(14,367)</u>	<u>(4,329)</u>
<b>NET CASH PROVIDED BY FINANCING ACTIVITIES</b>	<u>225,633</u>	<u>130,671</u>
<b>NET INCREASE (DECREASE) IN CASH</b>	89,635	(13,229)
<b>CASH, BEGINNING OF YEAR</b>	<u>12,578</u>	<u>25,807</u>
<b>CASH, END OF YEAR</b>	<u>\$ 102,213</u>	<u>\$ 12,578</u>

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

SOUTH BRONX CHARTER SCHOOL FOR INTERNATIONAL CULTURES AND THE ARTS  
 STATEMENTS OF CASH FLOWS (CONT'D.)  
 FOR THE YEARS ENDED JUNE 30, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
<u>RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</u>		
CHANGE IN NET ASSETS	\$ (318,762)	\$ 103,169
<u>ADJUSTMENTS TO RECONCILE CHANGE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</u>		
Depreciation	65,458	52,369
Changes in Assets (Increase) Decrease:		
Receivables from governmental agencies	64,773	(76,372)
Receivables from NYS Stimulus Facility financing grant	-	250,000
Prepaid and other assets	(31,890)	350
Changes in Liabilities Increase (Decrease):		
Accounts payable	(72,010)	99,675
Due to management company	383,946	220,764
Accrued salaries and benefits	239,844	45,926
Accrued expenses	120,555	-
Total Adjustments	<u>770,676</u>	<u>592,712</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 451,914</u>	<u>\$ 695,881</u>
<u>SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:</u>		
Property and equipment purchased through notes payable	<u>\$ -</u>	<u>\$ 1,900,000</u>
Property and equipment purchased through capital lease financing	<u>\$ 38,000</u>	<u>\$ -</u>

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

SOUTH BRONX CHARTER SCHOOL FOR INTERNATIONAL CULTURES AND THE ARTS  
NOTES TO FINANCIAL STATEMENTS

Note 1 - Summary of Significant Accounting Policies

Nature of Activities

South Bronx Charter School for International Cultures and the Arts (the "School") is a charter school for children located in the Bronx, New York. In the fourth year of operation 2008-2009, the School operated kindergarten, first, second, third and fourth grades. Under its charter agreement, the School plans to add one grade per year until fifth grade is reached. It educates children on a completely nondiscriminatory and secular basis. The purpose is for founders and supporters of the School to provide access to a public education of high quality for all children.

Basis of Accounting and Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the School and changes therein are classified and reported as follows:

Unrestricted net assets - Net assets of the School which have not been restricted by an outside donor or by law are available for use in carrying out the operations of the School.

Property and Equipment

Property and equipment is stated at cost. The costs of additions and betterments are capitalized when they exceed \$500, and expenditures for repairs and maintenance are expensed in the period incurred. When items of property and equipment are sold or retired, the related costs and accumulated depreciation are removed from the accounts and any gain or loss is included in income.

Depreciation of property and equipment is provided utilizing the straight-line method over the estimated useful lives of the respective assets as follows:

Furniture and fixtures	7 years
Computer equipment	3 years
Office equipment	3 years

No depreciation is recorded on construction in progress until the construction is completed.

SOUTH BRONX CHARTER SCHOOL FOR INTERNATIONAL CULTURES AND THE ARTS  
NOTES TO FINANCIAL STATEMENTS

Note 1 - Summary of Significant Accounting Policies (cont'd.)

Income Taxes

The School is exempt from Federal income and excise taxes under Internal Revenue Code Section 501(c)(3) and is a publicly supported organization as described in Section 509(a). It is classified by the Internal Revenue Service as other than a private foundation.

Contributions

The School records contributions of cash and other assets as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. The School records contributions as restricted support if they are received with donor stipulations that limit their use through purpose or time restrictions. When a restriction expires, that is, when a stipulated time restriction ends or a purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the Statement of Functional Expenses. Accordingly, certain costs have been allocated among programs and supporting services benefited. Salaries, wages and fringe benefits were allocated as direct costs to programs and supporting activity, other costs to programs, and as direct costs based on actual costs associated with the activity.

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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

SOUTH BRONX CHARTER SCHOOL FOR INTERNATIONAL CULTURES AND THE ARTS  
NOTES TO FINANCIAL STATEMENTS

Note 1 - Summary of Significant Accounting Policies (cont'd.)

New Accounting Pronouncements

Effective January 1, 2008, the School adopted SFAS No. 157, *Fair Value Measurements* ("SFAS 157"). SFAS 157 clarifies the definition of fair value, establishes a framework for measuring fair values and requires additional disclosures about the use of fair value measurements when such measurements are required by generally accepted accounting principles. Various inputs are used in determining the fair value of assets and liabilities which are as follows:

Level 1 - price quotations in active markets for identical securities.

Level 2 - quoted prices for similar assets or liabilities in markets that are active or non-active, inputs other than quoted prices that are observable for the assets or liabilities such as interest rates, yield curves, credit risk or default risk.

Level 3 - to the extent observable inputs are not available, inputs based on the best information available in the circumstance.

There are no assets and liabilities measured at fair value in accordance with SFAS 157 at June 30, 2009.

Note 2 - Concentration of Credit Risk

The School maintains cash balances in two financial institutions. The balances are insured by the Federal Deposit Insurance Corporation up to \$250,000, with unlimited coverage for non-interest bearing accounts. From time to time the School's balances may exceed this limit. At June 30, 2009, there were no uninsured cash balances.

The School is dependent on various government agencies for funding, and is responsible for meeting the requirements of such agencies. If the School were to lose students or the related government funding, it could have a substantial effect on its ability to continue operations.

SOUTH BRONX CHARTER SCHOOL FOR INTERNATIONAL CULTURES AND THE ARTS  
NOTES TO FINANCIAL STATEMENTS

Note 3 - Restricted Cash

At June 30, 2009, restricted cash of \$230,000 is held in a non-interest bearing account. The cash is held as collateral in relation to the \$1,400,000 note payable (See Note 7).

Note 4 - Pupil Enrollment and Receivables from Governmental Agencies and NYS Stimulus Facility Financing Grant

Under the School's Charter School Agreement and the Charter Schools Act, the School is entitled to receive funding from both State and Federal sources that is available to public schools. These funds include State pupil enrollment funds, planning and implementation fund and the New York State Stimulus Facility financing grant and federal food subsidies and Title I, II, IV, V and IID funds. 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 some of these regulations, some of which are relatively new in the State of New York, were to change, or other factors included in the calculations were to change, the level of funding that the School receives could vary significantly.

Amounts due from governmental agencies and NYS Stimulus Facility financing grant and included as revenue in the statement of activities for the years ended June 30, 2009 and 2008 are \$220,438 and \$285,211, respectively.

The amounts are based upon actual amounts received as well as estimates by the management of the School. Management believes these estimates are based upon the best information available at this time. However, actual amounts received, as determined by the state, could vary based on changes in the factors used to calculate the amounts owed.

Note 5 - Property and Equipment

Property and equipment is summarized as follows:

	<u>2009</u>	<u>2008</u>
Furniture and fixtures	\$ 176,360	\$ 145,783
Computer equipment	78,605	63,328
Office equipment	108,067	42,968
Land	384,632	384,632
Construction in progress	<u>2,777,659</u>	<u>2,492,700</u>
	3,525,323	3,129,411
Less: Accumulated depreciation	<u>173,158</u>	<u>107,700</u>
	<u>\$ 3,352,165</u>	<u>\$ 3,021,711</u>

Depreciation expense related to property and equipment amounted to \$65,458 and \$52,369 for the years ended June 30, 2009 and 2008, respectively.

SOUTH BRONX CHARTER SCHOOL FOR INTERNATIONAL CULTURES AND THE ARTS  
NOTES TO FINANCIAL STATEMENTS

Note 6 - Management Company

Victory Schools, Inc. ("Victory") manages the operations of the School under a management agreement entered into by the School and Victory. The agreement was executed on March 28, 2005. Per the terms of the Agreement, Victory assumes responsibility for tasks and functions associated with the educational services to be provided to the children at the School in accordance with the terms of the Charter and the Charter Schools Act, subject to the appropriate oversight from the School's Board of Trustees. Victory is responsible for designing the curriculum, acquiring educational materials, hiring all staff and providing all financial and accounting functions.

In providing the above services, Victory is paid a management fee in an amount equal to the product of the total full-time equivalent enrollment of students in the School as defined under Section 119.1 of New York State Commissioner of Education Regulation multiplied by two thousand dollars (\$2,000) (the "Per Pupil Fee"). This Per Pupil Fee shall be increased or decreased each year by the percentage increase or decrease in the Final Adjusted Expense Per Pupil for charter schools of the New York City school district, as calculated by the New York State Education Department annually.

Victory is entitled to receive the management fee on a bi-monthly basis. Any Victory fee, or portion thereof, not paid within (30) days of its due date shall bear interest at an annualized rate of 15% per annum on the outstanding past due amount, provided such past due payments are not as a result of the New York City Department of Education's failure to timely remit the Adjusted Expense Per Pupil to the Charter School.

The management and central services fee expense for the year ended June 30, 2009 was \$864,277 based on \$2,739 per pupil. The outstanding balance as of June 30, 2009 which is past due is \$1,132,206. An agreed-upon interest rate of 6% per annum was charged on this balance and past due balances during the year ended June 30, 2009, and interest accrued on the balance totals \$64,087.

The amount due to the management company of \$1,132,206 at June 30, 2009 relates to management and central services fees discussed above totaling \$757,206. The remaining \$375,000 represents cash advances from the management company, of which \$240,000 was advanced during the year ended June 30, 2009. During the year ended June 30, 2009, the School made net payments to the management company of \$840,000 related to operating activities.

The management and central services fee expense for the year ended June 30, 2008 was \$652,048 based on \$2,426 per pupil. An agreed-upon interest rate of 6% per annum was charged on past due balances during the year ended June 30, 2008 and interest accrued on the balance totals \$9,963.

The amount due to the management company of \$508,260 at June 30, 2008, relates to management and central services fees discussed above totaling \$373,260. The remaining \$135,000 represents cash advances from the management company. During the year ended June 30, 2008, the School made net payments to the management company of \$539,114.

SOUTH BRONX CHARTER SCHOOL FOR INTERNATIONAL CULTURES AND THE ARTS  
NOTES TO FINANCIAL STATEMENTS

Note 7 - Notes Payable

Notes payable as of June 30, 2009 and 2008 are summarized as follows.

	<u>2009</u>	<u>2008</u>
Loan - interest only at LIBOR plus 2.25% (totaling 3.31% at June 30, 2009) per annum, with a balloon payment of all outstanding and unpaid principal due in January 2010, secured by property with a net book value of \$2,564,212. At June 30, 2009, the Company is in violation of a covenant on the loan. The Board is in the process of contacting the bank to request the waiver.	\$ 1,400,000	\$ 1,400,000
Loan - interest only at prime rate plus 1% (totaling 4.25% at June 30, 2009) per annum, with a balloon payment of all outstanding and unpaid principal due in January 2010, secured by property with a net book value of \$2,564,212, and subordinated to the \$1,400,000 loan noted above.	<u>500,000</u>	<u>500,000</u>
	<u>\$ 1,900,000</u>	<u>\$ 1,900,000</u>

Note 8 - Obligations Under Capital Lease

The School's property under a capital lease, which is included in property and equipment, is summarized as follows:

	<u>2009</u>	<u>2008</u>
Office equipment	\$ 37,796	\$ 13,192
Less: Accumulated depreciation	<u>11,634</u>	<u>12,826</u>
	<u>\$ 26,162</u>	<u>\$ 366</u>

The capital lease requires monthly payments of \$528 per annum through August 2011.

Future minimum lease payments under the capital lease at June 30, 2009 are as follows:

<u>Years Ending June 30:</u>	
2010	\$ 12,667
2011	11,611
2012	<u>798</u>
Present value of future minimum lease payments	25,076
Less: Current portion	<u>12,667</u>
	<u>\$ 12,409</u>

SOUTH BRONX CHARTER SCHOOL FOR INTERNATIONAL CULTURES AND THE ARTS  
NOTES TO FINANCIAL STATEMENTS

Note 9 - Defined Contribution Plan

The School offers a 401(k) plan (the "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 pre-tax contributions up to 100% of their compensation, subject to Internal Revenue Service guidelines. The School matches the employee contribution 100% up to 4% of the employee's annual compensation. The School's contribution recognized in the statement of activities was \$19,181 and \$23,362 for the years ended June 30, 2009 and 2008, respectively. The 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.

Note 10 - Contingencies

The School participates in a number of Federal and State programs. These programs require that the School complies 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 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 result of operations. Accordingly, no provision for any such liability that may result has been made in the accompanying financial statements.



INDEPENDENT AUDITORS' REPORT  
ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS

To The Board of Trustees  
South Bronx Charter School for International Cultures and the Arts  
Bronx, New York

We have audited the financial statements of South Bronx Charter School for International Cultures and the Arts (the School) as of and for the years ended June 30, 2009 and 2008, and have issued our report thereon dated October 28, 2009. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

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 *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the School's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the School's financial statements that is more than inconsequential will not be prevented or detected by the School's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the School's internal control.

Our consideration of the 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 the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

## Compliance

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 non compliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the Board of Directors, others within the Organization, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Grassi & Co., CPAs, P.C.*

GRASSI & CO., CPAs, P.C.

Lake Success, New York  
October 28, 2009