

THE WILLIAMSBURG CHARTER HIGH SCHOOL

(A Not-For-Profit Corporation)

FINANCIAL STATEMENTS

JUNE 30, 2010 AND 2009

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TEL: (212) 957-3600  
FAX: (212) 957-3696

## INDEPENDENT AUDITORS' REPORT

TO THE BOARD OF TRUSTEES  
THE WILLIAMSBURG CHARTER HIGH SCHOOL

We have audited the accompanying statements of financial position of The Williamsburg Charter High School (a not-for-profit corporation) (the "School") as of June 30, 2010 and 2009, and the related statements of activities, 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 audits 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 The Williamsburg Charter High School as of June 30, 2010 and 2009, and the changes in its net assets and its 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 26, 2010, on our consideration of The Williamsburg Charter High School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. 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.

Our audit was conducted for the purpose of forming an opinion on the 2010 basic financial statements of the School taken as a whole. The accompanying schedule of expenditures of federal awards for the year ended June 30, 2010 is presented for the purposes of additional analysis as required by the U.S. Office Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, 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 financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as whole.

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

New York, New York  
October 26, 2010

THE WILLIAMSBURG CHARTER HIGH SCHOOL  
(A Not-for-Profit Corporation)  
STATEMENTS OF FINANCIAL POSITION  
JUNE 30,

	2010	2009
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 72,447	\$ 115,317
Investment in marketable securities	-	385,509
Grants and contracts receivable	167,108	231,040
Due from affiliates	-	81,275
Prepaid expenses and other current assets	87,933	57,037
Total current assets	327,488	870,178
Property and equipment, net of accumulated depreciation and amortization of \$734,300 and \$572,390, respectively	2,754,763	1,359,996
Other assets:		
Security deposit	1,500,000	1,500,000
Loan costs, net of accumulated amortization	8,750	13,750
Total other assets	1,508,750	1,513,750
<b>TOTAL ASSETS</b>	<b>\$ 4,591,001</b>	<b>\$ 3,743,924</b>
<b>LIABILITIES AND NET ASSETS</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 998,512	\$ 334,293
Accrued payroll and payroll taxes	128,147	107,021
Revolving line of credit	442,081	442,081
Due to affiliates	93,036	-
Refundable advances	252,610	-
Current portion of notes payable	322,354	315,195
Total current liabilities	2,236,740	1,198,590
Notes payable - long-term	1,635,358	1,807,712
Total liabilities	3,872,098	3,006,302
Net assets:		
Unrestricted	676,903	737,622
Temporarily restricted	42,000	-
Total net assets	718,903	737,622
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 4,591,001</b>	<b>\$ 3,743,924</b>

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

THE WILLIAMSBURG CHARTER HIGH SCHOOL  
(A Not-for-Profit Corporation)  
STATEMENTS OF ACTIVITIES  
FOR THE YEARS ENDED JUNE 30,

	2010			2009
	Unrestricted	Temporarily Restricted	Total	
Revenue and support:				
State and local per pupil operating revenue	\$ 11,310,116	\$ -	\$ 11,310,116	\$ 8,768,580
Federal grants	1,456,653	-	1,456,653	719,552
State grants	507,045	-	507,045	49,073
Contributions and grants	50,000	42,000	92,000	51,000
Donated facility	-	-	-	196,736
Donated services	28,248	-	28,248	-
Investment income (loss), net	39,141	-	39,141	(134,901)
Other income	76,946	-	76,946	97,229
Total revenue and support	<u>13,468,149</u>	<u>42,000</u>	<u>13,510,149</u>	<u>9,747,269</u>
Expenses:				
Program services				
Regular education	9,422,423	-	9,422,423	7,958,145
Special education	1,121,150	-	1,121,150	644,797
Total program services	<u>10,543,573</u>	<u>-</u>	<u>10,543,573</u>	<u>8,602,942</u>
Supporting services				
Management and general	2,985,295	-	2,985,295	1,102,012
Fundraising	-	-	-	279,386
Total expenses	<u>13,528,868</u>	<u>-</u>	<u>13,528,868</u>	<u>9,984,340</u>
Changes in net assets	(60,719)	42,000	(18,719)	(237,071)
Net assets - beginning of year	<u>737,622</u>	<u>-</u>	<u>737,622</u>	<u>974,693</u>
Net assets - end of year	<u>\$ 676,903</u>	<u>\$ 42,000</u>	<u>\$ 718,903</u>	<u>\$ 737,622</u>

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

THE WILLIAMSBURG CHARTER HIGH SCHOOL  
(A Not-for-Profit Corporation)  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED JUNE 30,

	2010	2009
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Changes in net assets	\$ (18,719)	\$ (237,071)
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	161,910	176,425
Unrealized loss on marketable securities	38,485	22,551
Realized (gain) loss on marketable securities	(34,211)	137,247
Changes in operating assets and liabilities:		
Decrease (Increase) in grants and contracts receivable	63,932	(176,838)
Decrease (Increase) in net due (to)/from affiliates	174,311	(81,275)
(Increase) in prepaid expenses and other assets	(25,896)	(2,192)
Increase in accounts payable and accrued expenses	630,010	33,092
Increase in accrued payroll and payroll taxes	21,126	12,827
Increase (Decrease) in refundable advances	252,610	(82,946)
<b>NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>	<b>1,263,558</b>	<b>(198,180)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sale of marketable securities	415,443	693,556
Payment of security deposit	-	(1,500,000)
Purchase of property and equipment	(1,556,676)	(1,142,025)
Purchase of marketable securities	-	(487,097)
<b>NET CASH (USED IN) INVESTING ACTIVITIES</b>	<b>(1,141,233)</b>	<b>(2,435,566)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from notes payable	-	2,150,000
Proceeds from revolving line of credit	-	442,081
Payment of notes payable	(165,195)	(27,093)
<b>NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES</b>	<b>(165,195)</b>	<b>2,564,988</b>
<b>NET (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(42,870)</b>	<b>(68,758)</b>
<b>CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR</b>	<b>115,317</b>	<b>184,075</b>
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<b>\$ 72,447</b>	<b>\$ 115,317</b>
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:</b>		
Cash paid during the year for interest	<b>\$ 109,514</b>	<b>\$ 18,382</b>

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

THE WILLIAMSBURG CHARTER HIGH SCHOOL  
(A Not-For-Profit Corporation)  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010 AND 2009

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

Nature of Organization

The Williamsburg Charter High School (the "School") is a New York State, not-for-profit educational corporation that operates as a charter school in the borough of Brooklyn, New York City. On February 23, 2004, the Board of Regents of the University of the State of New York for and on behalf of the State Education Department granted the School a provisional charter valid for a term of five years from the effective date of February 23, 2004 and renewable upon expiration. The School renewed its charter for an additional five-year term through 2013. The School's mission is to equip students with the academic and character skills necessary to succeed in high school, college and the competitive world beyond. The School provided education to approximately 800 students in nine through twelve grade in the 2009-2010 academic year.

Food and Transportation

The New York City Department of Education provides free and reduced-price lunches and transportation directly to a majority of the School's students. Such costs are not included in these financial statements.

Tax Status

The School is exempt from federal income taxes 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).

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

Net assets of the School whose use has not been restricted by an outside donor or by law. They are available for any use in carrying out the operations of the School.

Temporarily Restricted

Net assets of the School whose use has been limited by donor-imposed stipulations that either expire with the passage of time or can be fulfilled and removed by actions of the School. When such stipulations end or are fulfilled, such temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities and changes in net assets, as net assets released from restrictions.

THE WILLIAMSBURG CHARTER HIGH SCHOOL  
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NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010 AND 2009

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

Basis of Presentation (Continued)

*Permanently Restricted*

Net assets of the School whose use has been permanently limited by donor-imposed restrictions. Such assets include contributions required to be invested in perpetuity, the income from which is available to support charitable purposes designated by the donors.

The School has no permanently restricted net assets as of June 30, 2010 and 2009.

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 agencies.

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.

THE WILLIAMSBURG CHARTER HIGH SCHOOL  
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NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010 AND 2009

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

Investments

Investments are carried at fair market value. The fair market values of the investments are based on the last reported sales price, on the national securities market on which the investment is traded, on the last business day of the year. Purchases and sales of securities are reflected on a trade date basis. Unrealized gains or losses are included in the change in net assets in the accompanying statement of activities (see Note 4).

Property and Equipment

Purchased property and equipment are recorded at cost. Property and equipment acquired with certain government funding are recorded as expenses pursuant to the terms of the contract, in which ownership of such property and equipment is retained by the funding source. Maintenance and repairs are expensed as incurred. Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets as follows:

Furniture and fixtures	5 years
Equipment	5 years
Software	5 years
Website development	3 years
Leasehold improvements	useful life or related lease

Refundable Advances

The School records certain government grants as refundable advances until related services are performed, at which time it is recognized as revenue.

Reclassifications

Certain 2009 accounts have been reclassified to conform to the 2010 financial statement presentation. The reclassifications have no effect on 2009 total assets, liabilities, net assets and changes in net assets.

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 2009 financial statements from which the summarized information was derived.

THE WILLIAMSBURG CHARTER HIGH SCHOOL  
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NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010 AND 2009

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

Loan Costs

Loan costs of \$25,000 were incurred during fiscal 2009 to obtain a promissory note payable. These costs are amortized using the straight-line method over the life of the promissory note payable.

Loan costs consisted of the following at June 30, 2010 and 2009 and for the years then ended:

	<u>2010</u>	<u>2009</u>
Balance - beginning of year	\$ 18,750	\$ -
Fees incurred	2,250	25,000
Less: Amortization expense	<u>7,250</u>	<u>6,250</u>
Balance - end of year	13,750	18,750
Less: Current year portion, included in other current assets	<u>5,000</u>	<u>5,000</u>
Long-term portion	<u>\$ 8,750</u>	<u>\$ 13,750</u>

Recent Accounting Pronouncements

In June 2009, the FASB issued FASB Accounting Standards Codification (ASC) 105, Generally Accepted Accounting Principles (“GAAP”), 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 year ended 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 School’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, state, and city entitlements. The School expects to collect these receivables within one year.

THE WILLIAMSBURG CHARTER HIGH SCHOOL  
(A Not-For-Profit Corporation)  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010 AND 2009

NOTE 3 - RELATED PARTY TRANSACTIONS

The School is an affiliate of Believe High School Network (the “Network”), a New York State, not-for-profit corporation. The Network supports the School by providing management and other supporting services. Pursuant to the terms of the Agreement by and between the Network and the School, dated July 31, 2009, the Network shall provide educational management and operational services in connection with the management of the School. These services include, but not limited to start-up, curriculum design, administration, staff and leadership recruiting, evaluations and assessments, training and development. As compensation to the Network for these services rendered, the School shall pay to the Network an amount equal to 20% of the Per Pupil Operating Revenue collected for the 2009-2010 regular school year. The Per Pupil Operating Revenue fee shall be decreased each subsequent fiscal year starting with the 2010-2011 academic year by one percent until the 2013-2014 fiscal year. The Agreement shall automatically be renewed for additional renewal terms ending on June 30 of each subsequent year after the initial term (July 1, 2009 to June 30, 2014), unless written notice of intent to terminate or renegotiate is given by either party according to the terms of the agreement. For the year ended June 30, 2010, the School incurred \$2,343,531 in management fees to the Network.

For operational efficiency and purchasing power, the School shares certain expenses with the Network and two charter schools related by common management. The Believe Northside Charter High School (“Believe Northside”) and Believe Southside Charter High School (“Believe Southside”). For the year ended June 30, 2010, the School paid on behalf of the Network \$65,362 in operating expenses. There were no transactions for the year ended June 30, 2009 between the School and the Network. For the year ended June 30, 2010, the School paid on behalf of Northside and Southside \$29,391 and \$29,344, respectively, for school startup expenses. In addition, the School received \$70,000 from Northside and \$70,000 from Southside in loans payable. For the year ended June 30, 2009, the School paid on behalf of Northside and Southside \$40,638 and \$40,637, respectively, for school startup expenses.

The net balance due (to)/from related parties consisted of the following at June 30,:

	<u>2010</u>	<u>2009</u>
Network	\$ (11,771)	\$ -
Believe Northside	(40,609)	40,638
Believe Southside	<u>(40,656)</u>	<u>40,637</u>
	<u>\$ (93,036)</u>	<u>\$ 81,275</u>

THE WILLIAMSBURG CHARTER HIGH SCHOOL  
(A Not-For-Profit Corporation)  
NOTES TO FINANCIAL STATEMENTS  
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NOTE 4 - INVESTMENT IN MARKETABLE SECURITIES AND FAIR VALUE MEASUREMENTS

FASB ASC 820-10, *Fair Value Measurements*, establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under FASB ASC 820-10 are described as follows:

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2010 and 2009.

*Equity securities:* Valued at the closing price reported on the securities market on which the investment is traded.

*Mutual funds:* Valued at the closing price reported on the securities market on which the investment is traded.

The preceding methods may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the School believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table sets forth by level, within the fair value hierarchy, the School's assets at fair value at June 30, 2010 and 2009.

Investments held by the School at June 30, 2010 and 2009 are summarized as follows:

<u>Description</u>	<u>2010</u>		<u>2009</u>	
	<u>Market</u>	<u>Cost</u>	<u>Market</u>	<u>Cost</u>
<u>Level 1</u>				
Equity securities	\$ -	\$ -	\$ 111,800	\$ 148,525
Mutual funds	-	-	273,709	261,167
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 385,509</u>	<u>\$ 409,962</u>

Net investment income (loss) consists of the following for the years ended June 30,:

	<u>2010</u>	<u>2009</u>
Interest and dividends	\$ 43,415	\$ 24,897
Realized gains/(losses)	34,211	(137,247)
Net unrealized (losses)	<u>(38,485)</u>	<u>(22,551)</u>
	<u>\$ 39,141</u>	<u>\$ (134,901)</u>

THE WILLIAMSBURG CHARTER HIGH SCHOOL  
(A Not-For-Profit Corporation)  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2010 AND 2009

NOTE 5 - PROPERTY AND EQUIPMENT

Property and equipment consists of the following at June 30,:

	2010	2009
Furniture and fixtures	\$ 354,471	\$ 308,641
Equipment	965,875	534,670
Software	76,116	73,362
Website development	18,750	-
Construction-in-progress	2,073,851	1,015,713
	3,489,063	1,932,385
Less: Accumulated depreciation and amortization	734,300	572,390
	\$ 2,754,763	\$ 1,359,996

The School has contracted with several contractors for planning, design, and construction of a new building facility for the School. At June 30, 2010 and 2009, construction-in-progress is comprised of architect fees and other preconstruction costs for the planning and development of the new building facility.

Depreciation and amortization expense was \$161,910 and \$176,425 for the years ended June 30, 2010 and 2009, respectively.

NOTE 6 - AGREEMENT FOR SCHOOL FACILITY

The School had entered into a “Facility Shared Use Agreement” (the “Agreement”) with the New York City Department of Education for dedicated and shared space at a New York City Public School located at 424 Leonard Street, Brooklyn, New York. The Agreement commenced on June 15, 2005, and terminated on August 31, 2009. Pursuant to the terms of the Agreement, the School paid \$1 per annum for use of the shared facility during the regular opening hours. The School was responsible for any overtime related costs for services provided beyond the regular opening hours (see Note 15). On September 1, 2010, the School moved to a permanent facility located at 198-202 Varet Street, Brooklyn, New York (see Note 14).

The School entered into a sublease agreement with Believe High Schools Network, Inc (a related party) at 33 Nassau Avenue, Brooklyn for 52.43% of the premises located on the second floor. The premise is used for administrative offices, teacher center, and a college office. The term of the sublease was for one year which commenced on September 1, 2009 and terminated August 31, 2010. The base rent was \$13,212 a month. For the year June 30, 2010 the School incurred \$132,120 under this sublease agreement.

THE WILLIAMSBURG CHARTER HIGH SCHOOL  
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NOTES TO FINANCIAL STATEMENTS  
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NOTE 7 - CONTINGENCY

Certain grants and contracts may be subject to audit by the funding sources. Such audits might result in disallowances of costs submitted for reimbursement. 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 8 - 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 9 - 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 10 - PENSION PLANS

The School maintains a defined contribution 403(b) plan on behalf of its employees. The School provided matching contributions of 4% to the plan during 2010 and 2009. The amount charged to operations for contributions to this plan was \$256,461 and \$243,578 for the years ended June 30, 2010 and 2009, respectively.

The School also maintains a nonqualified deferred compensation plan for management employees, and made contributions of \$86,481 and \$36,599 for the years ended June 30, 2010 and 2009, respectively. As of June 30, 2010, the nonqualified deferred compensation plan was terminated by management.

NOTE 11 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at June 30, 2010 consist of contributions that are restricted for the purchase of technology.

THE WILLIAMSBURG CHARTER HIGH SCHOOL  
(A Not-For-Profit Corporation)  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2010 AND 2009

NOTE 12 - LONG-TERM DEBT

Notes payable consisted of the following at June 30,:

	2010	2009
a) Nonprofit Finance Fund	\$ 1,807,712	\$ 1,972,907
b) Fund for the City of New York	150,000	150,000
	1,957,712	2,122,907
Less: Current portion	322,354	315,195
Total long-term notes payable	\$ 1,635,358	\$ 1,807,712

Following are maturities of notes payable:

June 30, 2011	\$ 322,354
2012	179,823
2013	1,455,535
	\$ 1,957,712

- a) On April 2, 2009, the School entered into a \$2,000,000 promissory note payable with the Nonprofit Finance Fund. The note matures April 1, 2013, and is payable in monthly installments of \$20,487.51 including interest at prime rate plus 1.00% with a lump sum payment of \$1,320,231 due April 1, 2013. The proceeds were used to finance the security deposit and a portion of the architectural costs associated with the leasehold improvements to the new building facility for the School located at 198 Varet Street Brooklyn, New York. The loan is secured by substantially all School's assets.
- b) On June 7, 2009, The School borrowed \$150,000 from Fund for the City of New York to support education programs. The loan is non-interest bearing and was repaid July 31, 2009. On June 23, 2010, the School borrowed \$150,000 from Fund for the City of New York. The loan is non-interest bearing and was repaid on August 25, 2010. These loans were collateralized by the New York City Department of Education receivables.

NOTE 13 - REVOLVING LINE OF CREDIT

On April 2 2009, the School entered into a \$500,000 revolving line of credit with the Nonprofit Finance Fund. The line of credit is payable on April 1, 2010, with interest at prime rate plus 1.00%. The interest rate at June 30, 2010 and 2009 was 4.25%, respectively. The line of credit is secured by substantially all the School's assets. At June 30, 2010 and 2009, borrowings due under this line of credit was \$442,081, respectively. As of June 30, 2010 and as of the issuance of this report the School is in default of the covenants of the line of credit.

THE WILLIAMSBURG CHARTER HIGH SCHOOL  
(A Not-For-Profit Corporation)  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2010 AND 2009

NOTE 14 - COMMITMENTS

In March 2009, the School entered into a lease agreement with the landlord to lease new facilities for the School located at 198-202 Varet Street, Brooklyn, New York. Under the terms of the lease, the School started paying rent when construction has been substantially completed on the new building. The School occupied the space September 1, 2010 but the lease agreement was not finalized. The School subleases new building space to its management organization – Believe High School Network. The agreement will enable the School to expand from its current capabilities of educating approximately 800 students to being able to service approximately 1,000 students in the 2010/2011 school year. The term of the lease is for 30 years and the rent approximates \$79,000,000 over the life of the lease.

NOTE 15 - DONATED SERVICES AND FACILITY

Donated services are recognized as contributions in accordance with FASB ASC 605, “Accounts for Contributions Received and Contributions Made,” 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

Individuals have 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, 2010 and 2009, the value of such donated services amounted to \$28,248 and \$-0-, respectively. The entire value is included in program, management and general services, in the accompanying consolidated statement of activities.

The School received extended use of school facilities from the New York City Department of Education for programs and activities at a fair market value of \$-0- and \$196,736 for the years ended June 30, 2010 and 2009, respectively.

FRUCHTER ROSEN & COMPANY, P.C.  
CERTIFIED PUBLIC ACCOUNTANTS  
156 WEST 56<sup>TH</sup> STREET  
NEW YORK, NEW YORK 10019

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TEL: (212) 957-3600  
FAX: (212) 957-3696

INDEPENDENT AUDITORS' REPORT  
ON ADDITIONAL INFORMATION

TO THE BOARD OF TRUSTEES  
THE WILLIAMSBURG CHARTER HIGH SCHOOL

Our report on our audits of the basic financial statements of The Williamsburg Charter High School (a not-for-profit corporation) as of June 30, 2010 and 2009, appears on Page 1. We conducted our audits 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 audits 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  
October 26, 2010

THE WILLIAMSBURG CHARTER HIGH SCHOOL  
(A Not-for-Profit Corporation)  
SCHEDULE OF FUNCTIONAL EXPENSES  
FOR THE YEARS ENDED JUNE 30,

	2010					2009
	Regular Education	Special Education	Total Program Service	Management and General	Total	
Salaries	\$ 6,128,258	\$ 648,713	\$ 6,776,971	\$ 255,817	\$ 7,032,788	\$ 6,165,178
Payroll taxes and employee benefits	1,494,543	166,842	1,661,385	50,956	1,712,341	1,465,431
Network management fee	-	-	-	2,343,531	2,343,531	-
Equipment	25,694	-	25,694	-	25,694	31,085
Accounting and audit fees	-	-	-	25,000	25,000	59,912
Legal	-	-	-	49,229	49,229	1,875
Interest	-	-	-	108,930	108,930	25,370
Loan fees	-	-	-	7,250	7,250	6,250
Consultants	461,214	192,365	653,579	113,532	767,111	568,715
Student stipends	39,472	4,386	43,858	-	43,858	35,237
Supplies and materials	332,808	6,932	339,740	2,117	341,857	489,246
Travel and conference	76,915	7,199	84,114	2,199	86,313	76,473
Staff development	121,864	13,541	135,405	-	135,405	76,370
Insurance	95,699	9,189	104,888	2,806	107,694	98,581
Printing	40,631	4,536	45,167	1,385	46,552	50,048
Telephone	23,103	2,578	25,681	788	26,469	22,601
Membership and subscriptions	-	-	-	6,554	6,554	3,596
School events and expenses	225,185	25,021	250,206	-	250,206	309,896
Marketing and recruiting	3,265	363	3,628	-	3,628	15,811
Occupancy	181,856	20,301	202,157	6,200	208,357	237,767
Postage and copying	15,432	1,723	17,155	526	17,681	28,719
Depreciation and amortization	141,315	15,776	157,091	4,819	161,910	176,425
Miscellaneous	15,169	1,685	16,854	3,656	20,510	39,754
Total	<u>\$ 9,422,423</u>	<u>\$ 1,121,150</u>	<u>\$ 10,543,573</u>	<u>\$ 2,985,295</u>	<u>\$ 13,528,868</u>	<u>\$ 9,984,340</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  
THE WILLIAMSBURG CHARTER HIGH SCHOOL

We have audited the financial statements of The Williamsburg Charter High School (“the School”) as of and for the year ended June 30, 2010, and have issued our report thereon dated October 26, 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. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs that we considered to be significant deficiencies in internal control over financial reporting as item 2010-1. A *significant deficiency* is a deficiency, or 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.

TO THE BOARD OF TRUSTEES  
THE WILLIAMSBURG CHARTER HIGH 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 October 26, 2010.

The School's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the School's response and, accordingly, we express no opinion on it.

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  
October 26, 2010

REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL  
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

TO THE BOARD OF TRUSTEES  
THE WILLIAMSBURG CHARTER HIGH SCHOOL

Compliance

We have audited The Williamsburg Charter High School's (the "School") compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2010. The School's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements referred to above is the responsibility of the School's management. Our responsibility is to express an opinion on the School's compliance based on our audit.

We conducted our audit of compliance 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program identified in the accompanying schedule of findings and questioned costs 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 of the School's compliance with those requirements.

In our opinion, the School complied, in all material respects, with the compliance requirements referred to above that are applicable to each of its major federal programs identified in the accompanying schedule of findings and questioned costs for the year ended June 30, 2010. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2010-1 and 2010-2.

TO THE BOARD OF TRUSTEES  
THE WILLIAMSBURG CHARTER HIGH SCHOOL

Internal Control over Compliance

The management of the School is responsible for establishing and maintaining effective internal control over compliance with the compliance requirements referred to above. In planning and performing our audit, we considered the School's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the School's internal control over compliance.

*A deficiency in internal control over compliance* exist when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis.

*A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance 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 compliance that we consider material weaknesses. However, we identified certain deficiencies in internal control over compliance that we consider to be a significant deficiency as described in the schedule of findings and questioned costs as items 2010-1 and 2010-2. A significant deficiency in internal control over compliance is a deficiency, or combination of deficiencies in internal control over compliance with a type of compliance requirement of federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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  
October 26, 2010

THE WILLIAMSBURG CHARTER HIGH SCHOOL  
SCHEDULE OF FINDINGS AND QUESTIONABLE COSTS  
FOR THE YEAR ENDED JUNE 30, 2010

A - SUMMARY OF AUDITORS' RESULTS

1. The auditors' report expresses an unqualified opinion on the financial statements of The Williamsburg Charter High School.
2. One significant deficiency was discovered during the audit of the financial statements. The condition is not reported as a material weakness.
3. No instances of noncompliance material to the financial statements of The Williamsburg Charter High School, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. Two significant deficiencies relating to the audit of the major federal award program are reported in accordance with OMB Circular A-133. Neither condition is reported as a material weakness.
5. The auditors' report on compliance for the major federal award programs for The Williamsburg Charter High School expresses an unqualified opinion on all major federal programs.
6. Audit findings relative to the major federal award programs for The Williamsburg Charter High School are reported in this schedule.
7. The programs tested as major programs included:  
Title I, CFDA No. 84.010
8. The threshold used for distinguishing between Type A and B programs was \$300,000.
9. The Williamsburg Charter High School did not qualify as a low-risk auditee.

THE WILLIAMSBURG CHARTER HIGH SCHOOL  
SCHEDULE OF FINDINGS AND QUESTIONABLE COSTS  
FOR THE YEAR ENDED JUNE 30, 2010

B - FINDINGS - FINANCIAL STATEMENTS AUDIT

Internal Control over Financial Reporting

2010-01 General Ledger Maintenance and Reporting System

Criteria

Adequate internal controls should be established and maintained to ensure the reliability of an organization's financial accounting and reporting system.

Condition

At the commencement of our fieldwork, we noted that the books and records of the School were not ready for audit. We noted the following matters, which were indicative of a failure in the School's internal controls over financial accounting and reporting:

- Major general ledger account balances were not regularly analyzed and reconciled to the supporting source documents.
- Intercompany accounts with the School's management company, Believe High School Network, were not reconciled.
- Accrued bonuses were not recorded as of year-end.

These errors could have been minimized had these accounts been analyzed adequately during and as of year-end before the commencement of the audit.

Government cost-reimbursement grants were not monitored during the year. These grants or contracts require the School to properly account for and monitor the grant/contract funds to ensure that such funds are spent according to their intended purpose and that similar expenditures are not being "double-claimed".

Cause and Effect

These conditions are caused by the accounting personnel's lack of oversight over financial activities and grant management, which could affect the reliability of the financial statements. This resulted in various adjustments by management and prolonged the completion of the audit.

Recommendation

Accounts should be analyzed and reconciled with the general ledger on a monthly or quarterly basis. Periodic in-depth account analysis and reconciliations will help the School to detect and correct errors in the general ledger on a timely basis.

Management's Response

THE WILLIAMSBURG CHARTER HIGH SCHOOL  
SCHEDULE OF FINDINGS AND QUESTIONABLE COSTS  
FOR THE YEAR ENDED JUNE 30, 2010

C - FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT

Internal Control over Financial Reporting

2010-1 General Ledger Maintenance and Reporting System

The significant deficiency of finding 2010-01 general ledger maintenance and reporting system applies to the major federal award.

2010-2 Monitoring Government Cost-Reimbursement Grants

Criteria

Costs must be adequately documented for a cost-reimbursement claim to be valid.

Condition

We noted the following matters pursuant to our review of sample charges for salary reimbursement claims to federal grants

- The School did not tag, through its accounting software, a portion of expenses supporting claim reimbursements under the federal grants.
- Even though the School maintains time sheets for teachers and other professional staff, as they are paid on a salary basis, the School could not provide us with time sheets for salaries charged to federal grants.
- Even though the School maintains employee files for teachers and other professional staff, the School could not provide us with employee files charged to federal grants.

Cause and Effect

This condition can be attributed to accounting personnel's lack of oversight over grant management activities and maintenance of employee files and time sheets which could result in potential disallowance of expenses claimed on federal grants.

Recommendations

Expenditures should be identified against a specific contract when incurred. This can be accomplished by utilizing the separate cost centers or sub-accounts in the School's general ledger. The School should maintain a grant management expenditure schedule that is updated each month for each government grant.

All salary claimed for reimbursement must have adequate supporting documentation as proof of expenses incurred. This is accomplished by maintaining reports that reflect the distribution of activity for each employee or other professionals whose compensation is charged, in whole or in part, directly to federal grants. Time sheets must be signed by the individual or by a supervisory official having firsthand knowledge of the activities performed by the individual.

THE WILLIAMSBURG CHARTER HIGH SCHOOL  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2010

Federal Grantor Pass-through Grantor Program Name	Federal CFDA Number	Federal Expenditures
U.S. Department of Education: Passed through the New York State Education Department.		
Public Charter Schools Program	84.282	\$ 106,253
Special Education - IDEA	84.027	139,944
Title IA ARRA	84.389	189,968
Title I A	84.010	430,878
Title II A	84.367	22,164
Title II D	84.318	137,125
Carol M.White Physical Education Program	84.125	<u>217,321</u>
Total Expenditures		<u>\$ 1,243,653</u>

See accompanying notes to schedule of expenditures of federal awards.

THE WILLIAMSBURG CHARTER HIGH SCHOOL  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2010

NOTE A - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of The Williamsburg Charter High School and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements on OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements.