

SOUTH BRONX CLASSICAL CHARTER SCHOOL

FINANCIAL STATEMENTS

JUNE 30, 2009

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FINANCIAL STATEMENTS
JUNE 30, 2009

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INDEPENDENT AUDITORS' REPORT

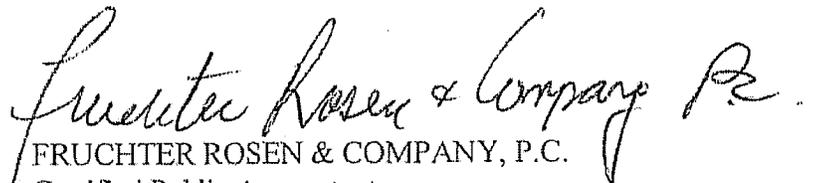
TO THE BOARD OF TRUSTEES
SOUTH BRONX CLASSICAL CHARTER SCHOOL

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, 2009 and the related statements of activities, and cash flows for the year then ended. These financial statements are the responsibility of the School's management. Our responsibility is to express an opinion on these financial statements based on our audit. The 2008 financial statements were audited by other auditors whose report dated October 28, 2008, expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the School as of June 30, 2009 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 September, 15, 2009 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
September 15, 2009

SOUTH BRONX CLASSICAL CHARTER SCHOOL
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2009

ASSETS	
Current assets:	
Cash and cash equivalents	\$ 1,841,167
Grants receivable	113,090
Prepaid expenses	24,085
Total current assets	<u>1,978,342</u>
Property and equipment, net of accumulated depreciation and amortization of \$164,886	283,711
Restricted cash	<u>70,000</u>
TOTAL ASSETS	<u><u>\$ 2,332,053</u></u>
LIABILITIES AND UNRESTRICTED NET ASSETS	
Current liabilities:	
Accounts payable and accrued expenses	\$ 55,005
Accrued payroll and payroll taxes	118,428
Total current liabilities	<u>173,433</u>
Contingency	-
Unrestricted net assets	<u>2,158,620</u>
TOTAL LIABILITIES AND UNRESTRICTED NET ASSETS	<u><u>\$ 2,332,053</u></u>

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, 2009

Revenue and support:	
State and local per pupil operating revenue	\$ 2,915,756
Federal grants	363,049
State and city grants	34,368
Contributions	61,232
In-kind contributions	4,917
Interest income	18,568
Total revenue and support	<u>3,397,890</u>
Expenses:	
Program services	
Regular education	1,889,216
Special education	141,079
Total program services	<u>2,030,295</u>
Supporting services	
Management and general	432,461
Fundraising	24,850
Total expenses	<u>2,487,606</u>
Change in unrestricted net assets	910,284
Unrestricted net assets - beginning of year	
As previously reported	1,064,895
Prior period adjustment	183,441
Balance at beginning of year, as restated	<u>1,248,336</u>
Unrestricted net assets - end of year	<u>\$ 2,158,620</u>

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, 2009

CASH FLOWS FROM OPERATING ACTIVITIES	
Increase in unrestricted net assets	\$ 910,284
Adjustments to reconcile increase in unrestricted net assets to net cash provided by operating activities:	
Depreciation and amortization	98,356
Changes in certain assets and liabilities:	
Decrease in grants receivable and refundable advances	1,803
(Increase) in prepaid expenses	(24,085)
Decrease in due from affiliates	75,000
(Decrease) in accounts payable and accrued expenses	(174,584)
Increase in accrued payroll and payroll taxes	<u>118,428</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>1,005,202</u>
CASH FLOWS FROM INVESTING ACTIVITY	
Purchase of property and equipment	<u>(176,315)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	828,887
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>1,082,280</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u><u>\$ 1,911,167</u></u>

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

SOUTH BRONX CLASSICAL CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

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, non-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 227 students in kindergarten through fifth grade in the 2008-2009 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.

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 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

Financial statement presentation follows the requirements of Statement of Financial Accounting Standards ("SFAS") No. 117, "Financial Statements of Not-For-Profit Organizations." Under SFAS No. 117, the School is required to report information regarding its financial position and activities according to three classes of net assets; unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. The net assets classifications are described as follows:

SOUTH BRONX CLASSICAL CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

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, 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 agency.

SOUTH BRONX CLASSICAL CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

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, 2009

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

Recent Accounting Pronouncements

In July 2006, the Financial Accounting Standards Board (the "FASB") issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*- an interpretation of FASB Statement No. 109 ("FIN 48"). FIN 48 prescribes a comprehensive model for recognizing, measuring, presenting and disclosing in the financial statements tax positions taken or expected to be taken on a tax return. If there are changes in net assets as a result of application of FIN 48, these will be accounted for as an adjustment to the opening balance of net assets. Additional disclosures about the amounts of such liabilities will also be required. In 2008, the FASB delayed the effective date of FIN 48 for certain nonpublic enterprises to annual financial statements for fiscal years beginning after December 15, 2008. The School will be required to adapt FIN 48 in its June 30, 2010 financial statements. The adoption of FIN 48 is not expected to have a material impact on the School's financial position, results of operations or cash flows.

NOTE 2 - GRANTS RECEIVABLE

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

NOTE 3 - PROPERTY AND EQUIPMENT

Furniture and fixtures	\$ 137,063
Computer equipment	153,132
Library books	124,306
Software	<u>34,096</u>
	448,597
Less: accumulated depreciation and amortization	<u>164,886</u>
	<u>\$ 283,711</u>

Depreciation and amortization expense was \$98,356 for the year ended June 30, 2009.

SOUTH BRONX CLASSICAL CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

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. For the year ended June 30, 2009, the school received a cash contribution from Friends of SBC in the amount of \$45,404. At June 30, 2009, there were no balances due to/from Friends of SBC.

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.

SOUTH BRONX CLASSICAL CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 8 - DONATED GOODS AND SERVICES

Donated services are recognized as contributions in accordance with SFAS No. 116, "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. One entity has provided legal services to the School at no charge. The value of these services meets the criteria for recognition in the financial statements and is recorded at fair value. For the year ended June 30, 2009, there were no donated services.

The School's administration received furniture from a donor at no charge. For the year ended June 30, 2009 the fair value of such donated furniture amounted to \$4,917. The School properly capitalized the furniture in accordance with the School's financial policies and procedures.

NOTE 9 - PENSION PLAN

The School maintains a pension plan qualified under Internal Revenue Code 401(k) for the benefit of its eligible employees. Under the plan, the School provided matching contributions of 4% to the plan. The amount charged to operations for fees and matching contributions to this plan amounted to \$32,687 for the year ended June 30, 2009.

NOTE 10 - PRIOR PERIOD ADJUSTMENT

During Fiscal Year 2008-2009, the School determined that revenues recorded under federal and city cost-reimbursement grants for the year ended June 30, 2008 were understated by \$71,183. In addition, state and city per pupil operating revenue for the year ended June 30, 2008 was understated by \$112,258. Accordingly, an adjustment of \$183,441 was made to net assets in the year ended June 30, 2009.

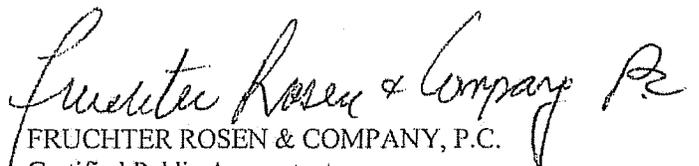
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INDEPENDENT AUDITORS' REPORT
ON ADDITIONAL INFORMATION

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, 2009 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
September 15, 2009

SOUTH BRONX CLASSICAL CHARTER SCHOOL
 SCHEDULE OF FUNCTIONAL EXPENSES
 FOR THE YEAR ENDED JUNE 30, 2009

	Regular Education	Special Education	Total Program Service	Management and General	Fundraising	Total
Salaries	\$ 1,265,033	\$ 65,495	\$ 1,330,528	\$ 280,079	\$ -	\$ 1,610,607
Benefits and taxes	266,729	13,931	280,660	59,122	-	339,782
Staff development	23,943	1,050	24,993	3,494	-	28,487
Consultants - Education	50,244	46,913	97,157	-	-	97,157
Consultants - Professional	-	-	-	8,384	-	8,384
Accounting/Auditing Fees	-	-	-	27,175	24,500	32,884
Textbooks/Curriculum	46,948	2,058	49,006	-	-	49,006
Student transportation	14,370	630	15,000	-	-	15,000
Food	14,966	656	15,622	-	-	15,622
Communication/Technology	36,157	1,898	38,055	7,141	-	45,196
Equipment rental/Lease	4,210	221	4,431	832	-	5,263
Printing	1,044	55	1,099	206	350	1,655
Marketing/Recruiting	8,976	471	9,447	1,773	-	11,220
Supplies and materials	55,125	2,417	57,542	21,725	-	79,267
Travel	835	-	835	209	-	1,044
Insurance	17,981	944	18,925	3,551	-	22,476
Facility	1,748	92	1,840	345	-	2,185
Repairs and maintenance	2,222	117	2,339	439	-	2,778
Depreciation and amortization	78,685	4,131	82,816	15,540	-	98,356
Miscellaneous	-	-	-	2,446	-	2,446
Total expenses	\$ 1,889,216	\$ 141,079	\$ 2,030,295	\$ 432,461	\$ 24,850	\$ 2,487,606

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

TO THE BOARD OF TRUSTEES
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, 2009, and have issued our report thereon dated September 15, 2009. 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. The 2008 financial statements were audited by other auditors whose report dated October 28, 2008, expressed an unqualified opinion on those financial statements.

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 internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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TO THE BOARD OF TRUSTEES
SOUTH BRONX CLASSICAL CHARTER SCHOOL

Compliance and Other Matters

As part of obtaining reasonable assurance about whether South Bronx Classical Charter School financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that were reported to the management of the School in a separate letter dated September 15, 2009.

This report is intended solely for the information and use of management, the audit committee, Board of Trustees, 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.


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

New York, New York
September 15, 2009