GRASSI & CO.

SOUTH BRONX CHARTER SCHOOL FOR INTERNATIONAL CULTURES AND THE ARTS

FINANCIAL STATEMENTS

JUNE 30, 2007

Certified Public Accountants
& Success Consultants

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 statement of financial position of South Bronx Charter School for International Cultures and the Arts at June 30, 2007, and the related statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 South Bronx Charter School for International Cultures and the Arts at June 30, 2007, and the results of its operations and cash flows for 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 October 29, 2007 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 conjuction 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 29, 2007

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SOUTH BRONX CHARTER SCHOOL FOR INTERNATIONAL CULTURES AND THE ARTS
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2007

ASSETS

Cash	$ 25,807
Receivables from governmental agencies, net of allowance for doubtful accounts of $0	208,839
Receivables from NYS Stimulus Facility financing grant, net of allowance for doubtful accounts of $0	250,000
Prepaid and other assets	16,608
Property and equipment - net	84,300
Security deposit on purchase of building	250,000
Total Assets	$ 835,554

LIABILITIES AND NET ASSETS

Liabilities	
Accounts payable	$ 22,939
Due to management company	152,496
Accrued salaries and benefits	178,360
Obligation under capital lease	5,772
Total Liabilities	359,567
CONTINGENCIES	
Net Assets	
Unrestricted	475,987
Total Liabilities and Net Assets	$ 835,554

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

SOUTH BRONX CHARTER SCHOOL FOR INTERNATIONAL CULTURES AND THE ARTS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2007

REVENUE AND SUPPORT:	
Resident student enrollment	$ 2,068,463
Federal funding	99,273
NYS Stimulus Facility financing grant	250,000
State funding	211,167
Food service	106,761
Students with disabilities	7,908
Government grants	29,311
Interest income	17,574
Total Revenue and Support	2,790,457
EXPENSES:	
Program Services	
Regular education	1,766,289
Special education	49,245
	1,815,534
Supporting Services	
Management and general	502,108
Total Expenses	2,317,642
Change in Net Assets	472,815
Net Assets, Beginning of Year	3,172
Net Assets, End of Year	$ 475,987

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

SOUTH BRONX CHARTER SCHOOL FOR INTERNATIONAL CULTURES AND THE ARTS
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2007

	Program Services				
	Regular Education	Special Education	Total Program	Management & General	Total
EXPENSES:					
Personnel expenses					
Salaries	$ 929,685	$ 25,805	$ 955,490	$ 0	$ 955,490
Fringe benefits	198,929	5,522	204,451	0	204,451
	1,128,614	31,327	1,159,941	0	1,159,941
OPERATING EXPENSES:					
Contracted services - management company	0	0	0	455,240	455,240
Food	124,796	3,464	128,260	0	128,260
Insurance	30,959	859	31,818	0	31,818
Supplies and materials	67,561	1,875	69,436	0	69,436
Textbooks	183,576	5,095	188,671	0	188,671
Telephone	4,166	116	4,282	0	4,282
Occupancy	10,929	303	11,232	0	11,232
Printing	4,786	133	4,919	0	4,919
Staff development	117,279	3,255	120,534	0	120,534
Equipment rental/lease	3,524	98	3,622	0	3,622
Legal	0	0	0	27,000	27,000
Accounting/audit fee	0	0	0	19,868	19,868
Maintenance and repairs	5,685	158	5,843	0	5,843
Transportation (student)	14,401	400	14,801	0	14,801
Travel	8,959	249	9,208	0	9,208
Depreciation	31,709	880	32,589	0	32,589
Other	29,345	1,033	30,378	0	30,378
	637,675	17,918	655,593	502,108	1,157,701
Total Expenses	$ 1,766,289	$ 49,245	$ 1,815,534	$ 502,108	$ 2,317,642

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

SOUTH BRONX CHARTER SCHOOL FOR INTERNATIONAL CULTURES AND THE ARTS
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2007

CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash received from resident student enrollment funding	$ 2,068,463
Cash received from federal funding	99,273
Cash received from state funding	26,444
Cash received from food service program	106,761
Cash recevied from students with disabilities program	7,908
Cash received from government grants	29,311
Interest income received	17,574
Cash Provided By Operating Activities	2,355,734
Cash paid for regular education program	(1,712,614)
Cash paid for special education program	(48,365)
Cash paid for management and general expenses	(396,408)
Cash Disbursed For Operating Activities	(2,157,387)
NET CASH PROVIDED BY OPERATING ACTIVITIES	198,347
CASH FLOWS FROM INVESTING ACTIVITIES:	
Deposit for purchase of building	(250,000)
Purchase of property and equipment	(37,313)
NET CASH USED IN INVESTING ACTIVITIES	(287,313)
CASH FLOWS FROM FINANCING ACTIVITIES:	
Principal payments of obligations under capital lease	(3,248)
NET CASH USED IN FINANCING ACTIVITIES	(3,248)
NET DECREASE IN CASH	(92,214)
CASH, BEGINNING OF YEAR	118,021
CASH, END OF YEAR	$ 25,807

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

SOUTH BRONX CHARTER SCHOOL FOR INTERNATIONAL CULTURES AND THE ARTS
STATEMENT OF CASH FLOWS (CONT'D.)
FOR THE YEAR ENDED JUNE 30, 2007

RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
CHANGE IN NET ASSETS	$ 472,815
ADJUSTMENTS TO RECONCILE CHANGE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Depreciation	32,589
Changes in Assets (Increase) Decrease:	
Receivables from governmental agencies	(172,497)
Receivables from NYS Stimulus Facility financing grant	(250,000)
Prepaid and other assets	(12,226)
Changes in Liabilities Increase (Decrease):	
Accounts payable	(500)
Due to management company	105,700
Accrued salaries and benefits	22,466
Total Adjustments	(274,468)
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 198,347

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

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 second year of operation 2006-2007, the School operated kindergarten, first and second 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

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. All contributions received in the year ended 2006 were unrestricted.

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.

Note 2 - Concentration of Credit Risk

The School maintains cash balances in a financial institution. The balance is insured by the Federal Deposit Insurance Corporation up to $100,000. From time to time, the School's balance may exceed these limits. At June 30, 2007, there are no uninsured 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.

Note 3 - 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 consist of the following as of June 30, 2007:

Receivables from governmental agencies	$ 208,839
Receivables from NYS Stimulus Facility financing grant	$ 250,000

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 4 - Property and Equipment

Property and equipment is summarized as follows:

Furniture and fixtures	$ 66,992
Computer equipment	57,108
Office equipment	15,531
	139,631
Less: Accumulated depreciation	55,331
	$ 84,300

Depreciation expense related to property and equipment amounted to $32,589 for the year ended June 30, 2007.

Note 5 - 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, 2007 was $455,240 based on $2,244 per pupil. No interest was charged to the School by Victory during the period.

The amount due to management company of $152,496 at June 30, 2007, relates to management and central service fees discussed above. During the year ended June 30, 2007, the School made payments to the management company of $349,540.

Note 6 - Obligations Under Capital Lease

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

Office equipment	$	13,192
Less: Accumulated depreciation		8,428
	$	4,764

Note 6 - Obligations Under Capital Lease (cont'd.)

The capital lease requires monthly payments of $360 per annum through March 2008.

Future minimum lease payments under the capital lease at June 30, 2007 are as follows:

Year Ending June 30:	
2008	$ 5,772
Less; Amount representing interest	-0-
Present value of future minimum lease payments	5,772
Less: Current portion	5,772
	$ -0-

Note 7 - 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 $13,443 for the year ended June 30, 2007. 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 8 - 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.

Note 9 - Subsequent Events

The School entered into a contract to purchase a building in May 2007 and made a down payment for $250,000 prior to June 30, 2007. This amount was funded through a grant (see Note 3). On September 7, 2007, the School closed on the purchase of the building. The building was purchased for $2,500,000, and with the close on the building, a mortgage was signed for $1,400,000. Mortgage is interest only monthly at a rate equal to the BBA LIBOR Daily floating rate plus 225 base points per annum, with principal due on September 7, 2008. In addition, a $500,000 subordinated loan was received from the Nonprofit Finance Fund.

INDEPENDENT AUDITORS' 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 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 (School) for the year ended June 30, 2007, and have issued our report thereon dated October 29, 2007. 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 in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

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 grants, noncompliance with which could have direct and material effect on the determination of the 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 that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Trustees, management, government agencies and others within the School 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 29, 2007