

BELIEVE SOUTHSIDE CHARTER HIGH SCHOOL

FINANCIAL STATEMENTS

JUNE 30, 2010

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INDEPENDENT AUDITORS' REPORT

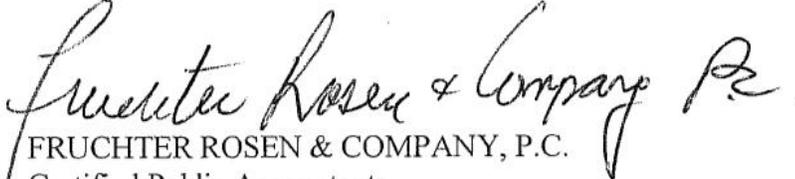
TO THE BOARD OF TRUSTEES
BELIEVE SOUTHSIDE CHARTER HIGH SCHOOL

We have audited the accompanying statement of financial position of Believe Southside Charter High School (the "School") (a not-for-profit corporation) as of June 30, 2010 and the related statements of activities, and cash flows for the period from January 13, 2009 (inception) to June 30, 2010. These financial statements are the responsibility of the School's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the School as of June 30, 2010 and the changes in its net assets and its cash flows for the period from January 13, 2009 (inception) to June 30, 2010, 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 8, 2010 on our consideration of the School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and on compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.


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

New York, New York
October 8, 2010

BELIEVE SOUTHSIDE CHARTER HIGH SCHOOL
(A Not-for-Profit Corporation)
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2010

ASSETS

Current assets:

Cash and cash equivalents	\$	389
Grants and contracts receivable		108,783
Due from related parties		34,742
Prepaid expenses		14,588
		14,588

Total current assets		158,502
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Property and equipment, net of accumulated
depreciation and amortization of \$9,509

146,929

TOTAL ASSETS

\$ 305,431

LIABILITIES AND UNRESTRICTED NET ASSETS

Current liabilities:

Accounts payable and accrued expenses	\$	24,996
Accrued payroll and payroll taxes		18,462
Refundable advances		32,666
Bank overdraft		7,566
		7,566

Total current liabilities		83,690
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Unrestricted net assets

221,741

TOTAL LIABILITIES AND UNRESTRICTED NET ASSETS

\$ 305,431

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

BELIEVE SOUTHSIDE CHARTER HIGH SCHOOL
 (A Not-for-Profit Corporation)
 STATEMENT OF ACTIVITIES
 FOR THE PERIOD FROM JANUARY 13, 2009 (INCEPTION),
 TO JUNE 30, 2010

Revenue and support:	
State and local per pupil operating revenue	\$ 1,320,161
Federal grants	470,927
State and city grants	95,175
Interest income	<u>58</u>
Total revenue and support	<u>1,886,321</u>
Expenses:	
Program services	
Regular education	925,440
Special education	<u>120,061</u>
Total program services	1,045,501
Management and general	<u>619,079</u>
Total expenses	<u>1,664,580</u>
Change in unrestricted net assets	221,741
Unrestricted net assets - beginning of period	<u>-</u>
Unrestricted net assets - end of period	<u><u>\$ 221,741</u></u>

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

BELIEVE SOUTHSIDE CHARTER HIGH SCHOOL
(A Not-for-Profit Corporation)
STATEMENT OF CASH FLOWS
FOR THE PERIOD FROM JANUARY 13, 2009 (INCEPTION)
TO JUNE 30, 2010

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in unrestricted net assets	\$ 221,741
Adjustments to reconcile change in unrestricted net assets to net cash provided by operating activities:	
Depreciation and amortization	9,509
Changes in operating assets and liabilities:	
(Increase) in grants and contracts receivable	(108,783)
(Increase) in due from related parties	(34,742)
(Increase) in prepaid expenses	(14,588)
Increase in accounts payable and accrued expenses	24,996
Increase in accrued payroll and payroll taxes	18,462
Increase in refundable advances	32,666
	149,261
NET CASH PROVIDED BY OPERATING ACTIVITIES	
 CASH FLOWS FROM INVESTING ACTIVITY	
Purchase of property and equipment	(156,438)
 CASH FLOWS FROM FINANCING ACTIVITY	
Bank overdraft	7,566
	-
CASH AND CASH EQUIVALENTS - BEGINNING OF PERIOD	
 CASH AND CASH EQUIVALENTS - END OF PERIOD	
	\$ 389

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

BELIEVE SOUTHSIDE CHARTER HIGH SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

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

Nature of Organization

Believe Southside Charter School (the "School") is a New York State, non-for-profit educational corporation that was incorporated on January 13, 2009 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 January 13, 2009, 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 a 9-12 educational program that results in mastery of the New York State Learning Standards, high school graduation, and acceptance to colleges and universities of choice by all students. In addition, the School will develop and maintain a school culture that endorses high expectations that challenge each student to recognize and achieve his/her full potential within a school environment that is nurturing, professional and that fosters within each student an appreciation for life-long learning. The School provided education to approximately 95 students in ninth grade in the 2009-2010 academic year.

The School shares space with a New York City public school beginning in August 2009. 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 submitted the required tax exempt forms with the Internal Revenue Service ("IRS") in a timely manner. The application for tax exempt status is pending review by the IRS. Management anticipates an IRS determination letter stating that The School is exempt from Federal income tax.

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:

BELIEVE SOUTHSIDE CHARTER HIGH SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

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

Basis of Presentation (Continued)

Unrestricted

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.

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 temporarily or permanently restricted net assets at June 30, 2010.

Revenue and Support

Contributions are recognized when the donor makes a promise to give to the School that is, in substance, unconditional. Grants and other contributions of cash are reported as temporarily restricted support if they are received with donor stipulations. Restricted contributions and grants that are made to support the School's current year activities are recorded as unrestricted revenue. Contributions of assets other than cash are recorded at their estimated fair value.

Revenue from the state and local governments resulting from the School's charter status and based on the number of students enrolled is recorded when services are performed in accordance with the charter agreement. Federal and other state and local funds are recorded when expenditures are incurred and billable to the government agency.

BELIEVE SOUTHSIDE CHARTER HIGH SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

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

Use of Estimates

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

Cash and Cash Equivalents

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

Concentration of Credit Risk

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

Property and Equipment

Purchased property and equipment are recorded at cost. Maintenance and repairs are expensed as incurred. All property and equipment purchased with government funding, whereas the government agency retains legal title to the long lived asset is expensed as incurred. Depreciation and amortization is provided on the straight line method over the estimated useful lives as follows:

Equipment	5 years
Software	3 years
Website	5 years

Refundable Advances

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

BELIEVE SOUTHSIDE CHARTER HIGH SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

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

Recent Accounting Pronouncements

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

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

NOTE 2 - GRANTS AND CONTRACTS RECEIVABLE

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

NOTE 3 - PROPERTY AND EQUIPMENT

Property and equipment consist of the following at June 30, 2010:

Equipment	\$ 135,152
Software	2,536
Website	<u>18,750</u>
	156,438
Less: Accumulated depreciation and amortization	<u>9,509</u>
	<u>\$ 146,929</u>

Depreciation and amortization expense was \$9,509 for the period from January 13, 2009 (inception) to June 30, 2010.

BELIEVE SOUTHSIDE CHARTER HIGH SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 4 - 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 period from January 13, 2009 (inception) to June 30, 2010, the School incurred and paid \$270,565 in management fees to the Network. In addition, the Network paid \$5,914 for start-up expenses on behalf of the School for the period from January 13, 2009 (inception) to June 30, 2010.

For operational efficiency and purchasing power, the School shares certain expenses with the Network and two charter schools related by common management. The Williamsburg Charter High School (“Williamsburg”) and Believe Northside Charter High School (“Believe Northside”). For the period from January 13, 2009 (inception) to June 30, 2010, Williamsburg paid \$29,344 for start-up expenses on behalf of the School and the School advanced \$70,000 to Williamsburg. There were no transactions noted between Believe Northside and the School.

The net balance due from/(to) related parties consisted of the following at June 30, 2010:

Network	\$ (5,914)
Williamsburg	40,656
Believe Northside	<u>-</u>
	<u>\$ 34,742</u>

BELIEVE SOUTHSIDE CHARTER HIGH SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 5 - CONTINGENCY

Certain grants and contracts may be subject to audit by the funding sources. Such audits might result in disallowances of costs submitted for reimbursements. Management is of the opinion that such cost disallowances, if any, will not have a material effect on the accompanying financial statements. Accordingly, no amounts have been provided in the accompanying financial statements for such potential claims.

NOTE 6 - REVENUE CONCENTRATION

The School receives a substantial portion of its support and revenue from the New York City Department of Education. If the charter school laws were modified, reducing or eliminating these revenues, the School's finances could be materially adversely affected.

NOTE 7 - FUNCTIONAL ALLOCATION OF EXPENSE

Directly identifiable expenses are charged to programs and supporting services. Expenses related to more than one function are charged to programs and supporting services on the basis of periodic time and expense studies. Management and general expense includes those expenses that are not directly identifiable with any other specific function, but provide for the overall support and direction of the School.

NOTE 8 - PENSION PLAN

The School maintains a pension plan qualified under Internal Revenue Code 403(b) 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 \$28,861 for the period from January 13, 2009 (inception) to June 30, 2010.

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INDEPENDENT AUDITORS' REPORT
ON ADDITIONAL INFORMATION

TO THE BOARD OF TRUSTEES
BELIEVE SOUTHSIDE CHARTER HIGH SCHOOL

Our report on our audit of the basic financial statements of Believe Southside Charter High School (a not-for-profit corporation) for period from January 13, 2009 (inception) to June 30, 2010 appears on page 1. We conducted our audit in accordance with auditing standards generally accepted in the United States of America for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedule of functional expenses is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements as a whole.


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

New York, New York
October 8, 2010

BELIEVE SOUTHSIDE CHARTER HIGH SCHOOL
(A Not-for-Profit Corporation)
SCHEDULE OF FUNCTIONAL EXPENSES
FOR THE PERIOD FROM JANUARY 13, 2009 (INCEPTION)
TO JUNE 30, 2010

	Regular Education	Special Education	Total Program Service	Management and General	Total
Salaries	\$ 507,082	\$ 54,896	\$ 561,978	\$ 102,347	\$ 664,325
Payroll taxes and employee benefits	114,589	12,405	126,994	23,127	150,121
Accounting and audit fees	-	-	-	20,000	20,000
Contractual services	62,942	11,107	74,049	172,783	246,832
Professional development	60,456	10,669	71,125	8,389	79,514
Supplies	14,701	2,594	17,295	2,040	19,335
Telephone	4,698	829	5,527	652	6,179
Postage and shipping	2,804	495	3,299	389	3,688
Printing and copying	7,100	1,253	8,353	985	9,338
Management fee - Network	-	-	-	270,565	270,565
Travel	754	133	887	105	992
Conferences, conventions, and meetings	27,404	4,836	32,240	3,802	36,042
Textbooks and classroom supplies	58,639	10,348	68,987	-	68,987
Student activities and fees	5,570	983	6,553	-	6,553
Insurance	31,918	5,633	37,551	1,137	38,688
Dues and subscriptions	-	-	-	2,750	2,750
Advertising	-	-	-	2,509	2,509
Technology and equipment	14,757	2,604	17,361	-	17,361
Membership fees	-	-	-	1,100	1,100
Depreciation and amortization	7,230	1,276	8,506	1,003	9,509
Miscellaneous expenses	4,796	-	4,796	5,396	10,192
Total expenses	<u>\$ 925,440</u>	<u>\$ 120,061</u>	<u>\$ 1,045,501</u>	<u>\$ 619,079</u>	<u>\$ 1,664,580</u>