

**CHARTER SCHOOL FOR
APPLIED TECHNOLOGIES
AND AFFILIATE**

FINANCIAL STATEMENTS

June 30, 2009

CHARTER SCHOOL FOR APPLIED TECHNOLOGIES AND AFFILIATE

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INDEPENDENT AUDITORS' REPORT

The Board of Trustees
Charter School for Applied Technologies
Buffalo, New York

We have audited the accompanying consolidated balance sheets of Charter School for Applied Technologies and Affiliate (the Organization) as of June 30, 2009 and 2008, and the related consolidated statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of June 30, 2009 and 2008, 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 23, 2009 on our consideration of the Organization's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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 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 considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The accompanying additional information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of the Organization. The accompanying additional information and schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the consolidated financial statements and, in our opinion, are fairly stated in all material respects in relation to the financial statements as a whole.



October 23, 2009

CHARTER SCHOOL FOR APPLIED TECHNOLOGIES AND AFFILIATE

Consolidated Balance Sheets

June 30,	2009	2008
Assets		
Current Assets:		
Cash	\$ 8,166,932	\$ 7,408,804
Accounts and other receivables (Note 2)	455,934	943,912
Prepaid expenses	28,661	56,805
	<u>8,651,527</u>	<u>8,409,521</u>
Property and equipment, net (Note 3)	20,000,666	18,837,183
Investments held in trust (Notes 4 and 5)	2,235,382	2,239,518
Deferred financing costs, net	1,293,231	1,342,972
	<u>\$ 32,180,806</u>	<u>\$ 30,829,194</u>
Liabilities and Net Assets		
Current Liabilities:		
Current portion of long-term debt (Note 5)	\$ 135,000	\$ 131,405
Accounts payable and accrued expenses	2,276,242	1,844,947
Deferred revenue	90,748	-
	<u>2,501,990</u>	<u>1,976,352</u>
Long-term debt (Note 5)	20,821,154	20,934,853
Net assets:		
Unrestricted	8,857,662	7,917,989
	<u>\$ 32,180,806</u>	<u>\$ 30,829,194</u>

See accompanying notes.

Consolidated Statements of Activities

For the years ended June 30,	2009	2008
Changes in unrestricted net assets:		
Support and revenue:		
Public school districts:		
Revenue-resident student enrollment	\$ 16,068,153	\$ 14,727,359
Revenue-students with disabilities	595,905	518,081
Federal grants	1,817,249	1,820,061
State grants	32,387	34,791
Food service and vending	155,218	140,732
Interest	117,516	336,995
Other income	325,203	241,789
Total unrestricted support and revenue	19,111,631	17,819,808
Expenses:		
Program expenses:		
Regular education	12,678,838	11,339,788
Special education	1,052,039	893,618
Other programs	1,773,792	1,497,296
Total program expenses	15,504,669	13,730,702
Supporting services:		
Management and general	2,667,289	2,506,613
Total expenses	18,171,958	16,237,315
Increase in net assets	939,673	1,582,493
Net assets - beginning	7,917,989	6,335,496
Net assets - ending	\$ 8,857,662	\$ 7,917,989

CHARTER SCHOOL FOR APPLIED TECHNOLOGIES AND AFFILIATE

Consolidated Statements of Cash Flows

For the years ended June 30,	2009	2008
Cash flows from operating activities:		
Increase in net assets	\$ 939,673	\$ 1,582,493
Adjustments to reconcile increase in net assets to net cash flows from operating activities:		
Depreciation and amortization	874,682	822,866
Changes in operating assets and liabilities:		
Accounts and other receivables	487,978	72,120
Prepaid expenses	28,144	(16,454)
Accounts payable and accrued expenses	(131,417)	64,037
Deferred revenue	90,748	-
Net cash flows from operating activities	2,289,808	2,525,062
Cash flows for investing activities:		
Property and equipment expenditures	(1,404,411)	(1,278,496)
Withdrawals from investments held in trust	4,136	4,176
Net cash flows for investing activities	(1,400,275)	(1,274,320)
Cash flows for financing activities:		
Principal repayment on long-term debt	(131,405)	(173,618)
Net increase in cash	758,128	1,077,124
Cash - beginning	7,408,804	6,331,680
Cash - ending	\$ 8,166,932	\$ 7,408,804

See accompanying notes.

Notes to Consolidated Financial Statements

1. Summary of Significant Accounting Policies:

Organization:

The consolidated financial statements of Charter School for Applied Technologies and Affiliate (the Organization), include the accounts of Charter School for Applied Technologies (the School) and EST, LLC, (the LLC) an affiliated entity of which the School is the sole member.

The School operates a charter school in Kenmore, New York approved by the Board of Regents of the State of New York. The School offers classes from kindergarten through grade 12. The School is chartered through 2011, after which time the charter may be renewed, upon application.

The LLC was formed to serve as a resource to other charter schools. All significant inter-entity accounts and transactions have been eliminated in the accompanying financial statements.

Subsequent Events:

Management has evaluated events and transactions for potential recognition or disclosure in the financial statements through October 23, 2009 (the date on which the financial statements were available to be issued).

Cash:

Cash in financial institutions potentially subjects the Organizations to concentrations of credit risk, since it may exceed insured limits at various times throughout the year.

Accounts Receivable:

Accounts receivable are stated at the amount that management expects to collect from outstanding balances. Balances that are still outstanding after reasonable collection efforts are written off through a charge to expense and a credit to accounts receivable. An allowance for doubtful accounts is considered unnecessary because all significant amounts deemed uncollectible are written off each year.

Property and Equipment:

Property and equipment is stated at cost net of accumulated depreciation. Depreciation is provided using the straight-line method over estimated useful lives. Maintenance and repairs are charged to operations as incurred; significant improvements are capitalized.

Investments:

Investments held in trust pursuant to various security and guarantee agreements related to long-term debt. Investments are stated at fair value as determined by quoted prices in active markets, and primarily consist of U.S. Treasury obligations.

Bond Discount and Financing Costs:

Bond discount and issuance costs associated with the issuance of the 2005 Series bonds are amortized on a straight-line basis over the life of the bonds. Unamortized bond discount is presented as a reduction in the face amount of the bonds payable, whereas issuance costs are recorded as deferred financing costs. Amortization of bond discounts was \$21,301 for 2009 and 2008. Amortization of bond issuance costs was \$49,741 for 2009 and 2008.

Grants:

The Organization receives certain governmental and other grants to fund various programs. The awards and reimbursements are subject to compliance and financial audits by the funding source. Management believes no significant adjustments are necessary to recognized amounts.

The Organization records grant awards accounted for as exchange transactions as deferred revenue until related services are performed. Special project grants are generally recorded as revenue when the grant is awarded.

Enrollment Fees:

The School is reimbursed by each student's resident school district annually, based on the product of the State approved operating expense of the resident school district and the full time equivalent enrollment of the students in the School residing in that district. Approximately 86% of enrollment fees are received from the City of Buffalo (the City) Board of Education (the Board of Education).

Income Taxes:

The School is a 501(c)(3) organization exempt from taxation under Section 501(a) of the Internal Revenue Code. The LLC is considered a disregarded entity for tax purposes. Consequently, all tax reporting for the LLC is consolidated with the activity of the Organization. Management believes it is no longer subject to examination by Federal and State taxing authorities for years prior to 2006.

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 amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Cost Allocation:

The Organization's costs of providing their various programs and activities have been summarized on a functional basis in the consolidated statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

2. Accounts and Other Receivables:

	2009	2008
Enrollment fees	\$ 147,829	\$ 265,739
Grants	285,119	508,628
City transportation advance	-	150,733
Other	22,986	18,812
	<u>\$ 455,934</u>	<u>\$ 943,912</u>

3. Property and Equipment:

	2009	2008
Land	\$ 286,500	\$ 277,000
Building and improvements	20,768,756	19,935,792
Construction in progress	983,769	-
Furniture and equipment	1,856,146	1,715,256
Vehicles	35,084	35,084
	<u>23,930,255</u>	<u>21,963,132</u>
Less accumulated depreciation	3,929,589	3,125,949
	<u>\$ 20,000,666</u>	<u>\$ 18,837,183</u>

Construction in progress at June 30, 2009 represents costs incurred in connection with the construction of the high school and elementary school cafeterias. The project is expected to cost \$1,350,000 and be completed during August 2009.

4. Investments:

The following accounts are held by a trustee in compliance with the issuance of 2005 Series bonds, representing investments restricted for project construction, security reserves, principal reduction and interest payments.

	2009	2008
Bond fund	\$ -	\$ 4,136
Reserve fund	1,914,938	1,914,938
Custodian and other fund	270,444	270,444
Repair fund	50,000	50,000
	<u>\$ 2,235,382</u>	<u>\$ 2,239,518</u>

5. Long-Term Debt:

	2009	2008
Erie County Industrial Development Agency Civic Facility Revenue Bonds (Charter School for Applied Technologies Project), Series 2005B (taxable) Bonds, beginning June 2006, payable in annual principal installments ranging from \$95,000 to \$205,000, plus interest at 9%, final payment due June 2015.	\$ 1,000,000	\$ 1,120,000
Erie County Industrial Development Agency Civic Facility Revenue Bonds (Charter School for Applied Technologies Project), Series 2005A (tax exempt) Bonds, principal payments beginning June 2016 in annual principal installments ranging from \$515,000 to \$1,790,000, plus interest from date of issuance at rates ranging from 6.250% to 6.875% due June 2035.	20,510,000	20,510,000
Capital lease obligation, monthly installments of \$5,133, including imputed interest of 11.7%, due August 2008 (Note 7).	<u>-</u>	11,405
	21,510,000	21,641,405
Less current portion	135,000	131,405
Less unamortized bond discount	553,846	575,147
	<u>\$ 20,821,154</u>	\$ 20,934,853

In June 2005, the School entered into an installment sale agreement with the Erie County Industrial Development Agency (ECIDA), principally to finance the cost of acquiring, renovating, and equipping certain buildings to be used for expansion of the School, including the establishment of a high school and refinancing of existing debt. To finance the project, ECIDA authorized the sale of Civic Facility Revenue Bonds in the aggregate amount of \$21,940,000 under a trust indenture with a bank as trustee. The sale is secured by mortgage and security agreements granting the trustee a mortgage lien on and security interest in real and personal property as well as certain revenues, subject to permitted encumbrances. The bonds are further secured by the debt service reserve fund (Note 4).

Aggregate maturities of long-term debt subsequent to June 30, 2009 are:

2010	\$ 135,000
2011	145,000
2012	155,000
2013	170,000
2014	185,000
Thereafter	20,720,000
	<u>\$ 21,510,000</u>

Interest expense for the years ended June 30, 2009 and 2008 was \$1,481,751 and \$1,512,421.

6. Retirement Plans:

The School maintains a 403 (b) profit sharing plan covering qualified employees. The plan does not require employer contributions.

The School participates in the New York State and Local Employees' Retirement System (ERS) and the New York State Teachers' Retirement System (TRS) (the Systems), which are cost-sharing multiple employer, public employee retirement systems. The Systems offer a wide range of plans and benefits which are related to years of service and final average salary, vesting of retirement benefits, death and disability.

New York State Teachers' Retirement System:

TRS is administered by the New York State Teachers' Retirement Board and provides benefits to plan members and beneficiaries as authorized by the Education Law and the Retirement and Social Security Law of the State of New York. TRS issues a publicly available financial report that contains financial statements and required supplementary information. The report may be obtained by writing to the New York State Teachers' Retirement System, 10 Corporate Woods Drive, Albany, NY 12211-2395.

New York State and Local Employees' Retirement System:

ERS provides retirement benefits as well as death and disability benefits. New York State Retirement and Social Security Law govern obligations of employers and employees to contribute and provide benefits to employees. ERS issues a publicly available financial report that includes financial statements and required supplementary information. This report may be obtained by writing to the New York State and Local Retirement System, 110 State Street, Albany, NY 12244.

Funding Policies:

The Systems require contributions of 3% of salary except for employees who joined before July 1976, or have greater than 10 years of service. For ERS, the Comptroller annually certifies the rates expressed as a percentage of the wages of participants used to compute the contributions required to be made by employers to the pension accumulation fund. Pursuant to Article 11 of the Education Law, rates are established annually for TRS by the New York State Teachers' Retirement Board at an actuarially determined rate. The rate is 7.63% and 8.73% of the annual covered payroll as of June 30, 2009 and 2008.

The contributions to the Systems for all plans for 2009 and 2008 were \$596,340 and \$630,739.

7. Lease Obligations:

The School entered into a five year property lease agreement that provides a purchase option which the School exercised subsequent to year end. The lease obligation and related asset were capitalized for financial reporting purposes. Amounts related to this lease included in property and equipment for 2008 total \$245,000 less accumulated depreciation of \$28,269.

During 2009, the School entered into an agreement to lease property under the terms of a noncancelable operating lease. Rental expense for the lease was \$5,400 for the year ended June 30, 2009.

Future minimum rentals to be paid for this lease are:

2010	\$	10,800
2011		10,800
2012		10,800
2013		10,800
2014		5,400
	\$	<u>48,600</u>

8. Cash Flows Information:

Net cash flows from operating activities reflect cash payments for interest of \$1,481,751 and \$1,512,164 for the years ended June 30, 2009 and 2008. Accounts payable for equipment additions of \$562,712 at June 30, 2009 are excluded from the consolidated statement of cash flows.

CHARTER SCHOOL FOR APPLIED TECHNOLOGIES AND AFFILIATE

**Additional Information
Consolidated Schedules of Expenses**

For the year ended June 30, 2009 (with summarized comparative totals for 2008)

	2009				2008	
	Regular Education	Special Education	Other Programs	Management and General	Total	Total
Salaries	\$ 6,363,401	\$ 526,256	\$ 807,006	\$ 1,508,771	\$ 9,205,434	\$ 8,245,461
Employee benefits and taxes	2,086,168	172,527	264,568	494,633	3,017,896	2,623,424
Contracted services	195,404	77,876	32,794	58,300	364,374	363,692
Equipment rental	74,454	-	-	9,015	83,469	43,685
Interest	1,185,401	74,088	148,175	74,087	1,481,751	1,512,421
Professional fees	-	-	-	217,956	217,956	154,435
Maintenance and repairs	336,205	21,013	42,026	21,012	420,256	387,861
Occupancy	451,799	28,237	56,475	28,238	564,749	625,687
Printing	30,933	2,558	3,923	7,335	44,749	68,237
Supplies and materials	606,967	50,196	76,975	143,913	878,051	787,808
Other expenses	166,080	13,735	21,062	39,378	240,255	141,511
Staff development	170,559	8,052	4,573	10,235	193,419	118,715
Telephone	41,664	3,446	5,284	9,878	60,272	57,274
Textbooks	263,919	29,324	-	-	293,243	121,232
Transportation	-	-	222,566	-	222,566	158,286
Travel	6,138	997	897	804	8,836	4,720
	11,979,092	1,008,305	1,686,324	2,623,555	17,297,276	15,414,449
Depreciation and amortization	699,746	43,734	87,468	43,734	874,682	822,866
Total	\$ 12,678,838	\$ 1,052,039	\$ 1,773,792	\$ 2,667,289	\$ 18,171,958	\$ 16,237,315

CHARTER SCHOOL FOR APPLIED TECHNOLOGIES AND AFFILIATE

**Additional Information
Consolidating Balance Sheet**

June 30, 2009

	School	LLC	Eliminations	Combined Totals
Assets				
Current Assets:				
Cash	\$ 8,100,612	\$ 66,320	\$ -	\$ 8,166,932
Accounts and other receivables	705,954	51,183	(301,203)	455,934
Prepaid expenses	28,661	-	-	28,661
	<u>8,835,227</u>	<u>117,503</u>	<u>(301,203)</u>	<u>8,651,527</u>
Property and equipment, net	20,000,666	-	-	20,000,666
Investments held in trust	2,235,382	-	-	2,235,382
Deferred financing costs, net	1,293,231	-	-	1,293,231
	<u>\$ 32,364,506</u>	<u>\$ 117,503</u>	<u>\$ (301,203)</u>	<u>\$ 32,180,806</u>
Liabilities and Net Assets				
Current Liabilities:				
Current portion of long-term debt	\$ 135,000	\$ -	\$ -	\$ 135,000
Accounts payable and accrued expenses	2,325,251	252,194	(301,203)	2,276,242
Deferred revenue	90,748	-	-	90,748
	<u>2,550,999</u>	<u>252,194</u>	<u>(301,203)</u>	<u>2,501,990</u>
Long-term debt	20,821,154	-	-	20,821,154
Net assets:				
Unrestricted	8,992,353	(134,691)	-	8,857,662
	<u>\$ 32,364,506</u>	<u>\$ 117,503</u>	<u>\$ (301,203)</u>	<u>\$ 32,180,806</u>

CHARTER SCHOOL FOR APPLIED TECHNOLOGIES AND AFFILIATE

Additional Information
Consolidating Statement of Activities

For the year ended June 30, 2009

	School	LLC	Eliminations	Combined Totals
Changes in unrestricted net assets:				
Support and revenue:				
Public school districts:				
Revenue-resident student enrollment	\$ 16,068,153	\$ -	\$ -	\$ 16,068,153
Revenue-students with disabilities	595,905	-	-	595,905
Federal grants	1,817,249	-	-	1,817,249
State grants	32,387	-	-	32,387
Food service and vending	155,218	-	-	155,218
Interest	115,360	2,156	-	117,516
Other income	301,705	349,435	(325,937)	325,203
Total unrestricted support and revenue	19,085,977	351,591	(325,937)	19,111,631
Expenses:				
Program expenses:				
Regular education	12,794,327	109,667	(225,156)	12,678,838
Special education	1,051,786	19,550	(19,297)	1,052,039
Other programs	1,591,776	211,091	(29,075)	1,773,792
Total program expenses	15,437,889	340,308	(273,528)	15,504,669
Supporting services:				
Management and general	2,573,324	146,374	(52,409)	2,667,289
Total expenses	18,011,213	486,682	(325,937)	18,171,958
Increase (decrease) in net assets	1,074,764	(135,091)	-	939,673
Net assets - beginning	7,917,589	400	-	7,917,989
Net assets - ending	\$ 8,992,353	\$ (134,691)	\$ -	\$ 8,857,662

See independent auditors' report.

CHARTER SCHOOL FOR APPLIED TECHNOLOGIES AND AFFILIATE

Additional Information
Consolidating Schedule of Expenses

For the year ended June 30, 2009

	School	LLC	Eliminations	Combined Totals
Salaries	\$ 8,873,828	\$ 331,606	\$ -	\$ 9,205,434
Employee benefits and taxes	2,968,793	49,103	-	3,017,896
Contracted services	663,974	400	(300,000)	364,374
Equipment rental	83,469	-	-	83,469
Interest	1,481,751	-	-	1,481,751
Professional fees	224,576	19,317	(25,937)	217,956
Maintenance and repairs	405,512	14,744	-	420,256
Occupancy	564,749	-	-	564,749
Printing	44,749	-	-	44,749
Supplies and materials	876,395	1,656	-	878,051
Other expenses	177,993	62,262	-	240,255
Staff development	193,419	-	-	193,419
Telephone	57,815	2,457	-	60,272
Textbooks	293,243	-	-	293,243
Transportation	222,566	-	-	222,566
Travel	3,699	5,137	-	8,836
	17,136,531	486,682	(325,937)	17,297,276
Depreciation and amortization	874,682	-	-	874,682
Total	\$ 18,011,213	\$ 486,682	\$ (325,937)	\$ 18,171,958

Schedule of Expenditures of Federal Awards

For the year ended June 30, 2009

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>CFDA Number</u>	<u>Grantor's Number</u>	<u>Expenditures</u>
<u>U.S. Department of Education</u>			
Passed through New York State Department of Education:			
Title I Grants to Local Educational Agencies	84.010	0021-08-4050	\$ 220,857
Title I Grants to Local Educational Agencies	84.010	0021-09-4050	622,745
Safe and Drug-Free Schools and Communities_State Grants	84.186	0180-08-4050	803
Safe and Drug-Free Schools and Communities_State Grants	84.186	0180-09-4050	11,389
State Grants for Innovative Programs	84.298	0002-08-4050	844
Education Technology State Grants	84.318	0292-08-4050	1,628
Education Technology State Grants	84.318	0292-09-4050	6,323
Reading First State Grants	84.357	0243-08-0086	101,233
Improving Teacher Quality State Grants	84.367	0147-08-4050	15,104
Improving Teacher Quality State Grants	84.367	0147-09-4050	49,374
			<u>1,030,300</u>
<u>U.S. Department of Agriculture</u>			
Passed through New York State Department of Education:			
Child Nutrition Cluster			
School Breakfast Program	10.553	N/A	199,579
National School Lunch Program	10.555	N/A	491,425
Total Child Nutrition Cluster			<u>691,004</u>
Fresh Fruit and Vegetable Program	10.582	N/A	49,280
Passed through New York State Office of General Services:			
Child Nutrition Discretionary Grants Limited Availability	10.579	N/A	46,665
Total U.S. Department of Agriculture			<u>786,949</u>
Total Expenditures of Federal Awards			<u>\$ 1,817,249</u>

Notes to Schedule of Expenditures of Federal Awards

1. Summary of Significant Accounting Policies:

Basis of Presentation:

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal award programs administered by Charter School for Applied Technologies and Affiliate (the Organization), an entity as defined in Note 1 to the Organization's financial statements. Federal awards received directly from federal agencies, as well as federal awards passed through from other governmental agencies, are included on the Schedule of Expenditures of Federal Awards.

Basis of Accounting:

The basis of accounting varies by federal program consistent with the underlying regulations pertaining to each program.

The amounts reported as federal expenditures generally were obtained from the appropriate federal financial reports for the applicable program and periods. The amounts reported in these federal financial reports are prepared from records maintained for each program, which are periodically reconciled with the Organization's financial reporting system.

Non-monetary Federal Program

The Organization is the recipient of a federal award program that does not result in cash receipts or disbursements, termed a "non-monetary program." During the year ended June 30, 2009, the Organization was granted \$46,665 worth of commodities under the Child Nutrition Discretionary Grants Limited Availability program (CFDA Number 10.579).