

A photograph of a line of diverse school children standing in a hallway. They are wearing white polo shirts and dark pants. The children are of various ethnicities and are looking towards the camera. The background is a blurred hallway with a door.

Southside Academy Charter School

Financial Statements and
Supplemental Schedule for the
Year Ended June 30, 2010 and
Independent Auditors' Report

SOUTHSIDE ACADEMY CHARTER SCHOOL

TABLE OF CONTENTS

	Page
INDEPENDENT AUDITORS' REPORT	1-2
FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED JUNE 30, 2010:	
Statement of Financial Position	3
Statement of Activities and Change in Net Assets	4
Statement of Cash Flows	5
Notes to Financial Statements	6-7
SUPPLEMENTAL SCHEDULE —	8
Schedule of Functional Expenses	9
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 <i>GOVERNMENT AUDITING STANDARDS</i>	10-11

INDEPENDENT AUDITORS' REPORT

Board of Trustees
Southside Academy Charter School
Syracuse, New York

We have audited the accompanying statement of financial position of Southside Academy Charter School (the "School") as of June 30, 2010, and the related statement of activities and change in net assets, and statement of 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 the respective 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 consideration of internal control over financial reporting as a basis for designing procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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, such financial statements 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 the cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of the School, taken as a whole. The supplemental schedule of functional expenses listed in the table of contents is presented for the purpose of additional analysis and is not a required part of the financial statements of the School. This schedule is the responsibility of the management of the School. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects when considered in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 14, 2010, 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 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.

A handwritten signature in black ink that reads "Deloitte & Touche LLP". The signature is written in a cursive, flowing style.

September 20, 2010

SOUTHSIDE ACADEMY CHARTER SCHOOL

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2010

ASSETS

Cash	\$ 300
Due from governmental revenue sources	<u>1,375,663</u>

TOTAL	<u>\$ 1,375,963</u>
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LIABILITIES AND NET ASSETS

LIABILITIES:

Deferred Revenue	\$ 506
Due to National Heritage Academies, Inc.	<u>1,375,457</u>

Total liabilities	1,375,963
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NET ASSETS — Unrestricted	<u>-</u>
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TOTAL	<u>\$ 1,375,963</u>
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See notes to financial statements.

SOUTHSIDE ACADEMY CHARTER SCHOOL

STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS YEAR ENDED JUNE 30, 2010

REVENUES, GAINS AND OTHER SUPPORT:

State aid	\$6,293,612
Other state sources	59,887
Federal sources	858,125
Private sources	<u>37,678</u>

Total revenues, gains and other support 7,249,302

EXPENSES — Contracted service fee 7,249,302

CHANGE IN NET ASSETS -

NET ASSETS:

Beginning of year -

End of year \$ -

See notes to financial statements.

SOUTHSIDE ACADEMY CHARTER SCHOOL

STATEMENT OF CASH FLOWS YEAR ENDED JUNE 30, 2010

CASH FLOWS PROVIDED BY OPERATING ACTIVITIES:	
State aid	\$ 5,295,884
Other state sources	50,269
Federal sources	816,798
Private sources	37,677
Payments for services rendered	<u>(6,200,651)</u>
Net cash used in operating activities	<u>(23)</u>
NET DECREASE IN CASH	(23)
CASH — Beginning of year	<u>323</u>
CASH — End of year	<u>\$ 300</u>
RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Change in net assets	\$ -
Adjustments to reconcile change in net assets to net cash used in operating activities:	
Change in due from governmental revenue sources	(1,049,180)
Change in deferred revenue	506
Change in due to National Heritage Academies, Inc.	<u>1,048,651</u>
NET CASH USED IN OPERATING ACTIVITIES	<u>\$ (23)</u>

See notes to financial statements.

SOUTHSIDE ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2010

1. NATURE OF OPERATIONS

Southside Academy Charter School (the “School”) is a public charter school as defined by Article 56 of the New York State Education Law which provides education based on rigorous teaching methods, parental involvement, student responsibility, and basic moral values. The School operates under a charter approved by the Board of Regents of the State of New York, which is responsible for oversight of the School’s operations. The charter expires June 30, 2015 and is subject to renewal. Management believes the charter will be renewed in the ordinary course of business. The School provides education, at no cost to the parent, to students in kindergarten through the eighth grade. Enrollment is open to all appropriately aged children without regard to gender, ethnic background, disability, and/or religious affiliation. 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).

The School’s primary source of revenue is provided by the State of New York and consists of an amount per student multiplied by weighted average student counts. The state revenue is recognized ratably over the school year and was funded through payments from July 2009 through May 2010.

The Board of Trustees of the School has entered into a management agreement (the “agreement”) with National Heritage Academies, Inc. (“NHA”) which requires NHA to provide administration, strategic planning and all labor, materials, equipment, and supervision necessary for the provision of educational services to students. As part of the consideration received under the agreement, NHA also provides the facility in which the School operates. The agreement will continue until termination of the charter, inclusive of any charter renewals, unless at least 90 days written notice of intent to terminate or renegotiate is given by either the School or NHA.

Under the terms of the agreement, NHA receives as remuneration for its services an amount equal to the total revenue received by the School from all revenue sources.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting — The financial statements have been prepared in accordance with Section 2851 of the Education Law of the State of New York which requires such statements to be prepared on the accrual basis of accounting in accordance with generally accepted accounting principles accepted in the United States of America for not-for-profit organizations.

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 disclosures 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.

Cash — Cash as of June 30, 2010, represents bank deposits which are covered by federal depository insurance.

Deferred Revenue — Deferred revenue as of June 30, 2010, consists of funds received for services which have not yet been performed.

The Financial Statements — The financial statements are presented as follows:

Net assets and changes therein are classified and reported as follows:

- *Unrestricted Net Assets* — Net assets which are not subject to donor imposed or governmental stipulations. Included in unrestricted net assets are net assets which have been designated by the board for certain projects.
- *Temporarily Restricted Net Assets* — Temporarily restricted net assets are net assets subject to donor-imposed stipulations that may or will be met either by actions of the Board and/or the passage of time.

Revenues and contributions are reported as follows:

- Revenues, gains and other support are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed or governmental restrictions. Expenses are reported as decreases in unrestricted net assets. Other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or governmental restriction. Expiration of temporary restrictions on net assets (i.e., the donor-stipulated purposes has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets.

3. RISK MANAGEMENT

The School is exposed to various risks of loss related to general liability. Commercial insurance policies to cover certain risks of loss have been obtained. There have been no significant reductions in insurance coverage during fiscal year 2010, and claims did not exceed coverage less retained risk deductible amounts in the past three fiscal years.

4. CONTINGENCIES

The School has received proceeds from several federal and state grants. Periodic audits of these grants are required and certain costs may be questioned as not being appropriate expenditures under the grant agreements. Such audits could result in the refund of grant monies to the grantor agencies. Management believes that any required refunds will be immaterial. No provision has been made in the accompanying financial statements for the refund of grant monies.

5. SUBSEQUENT EVENTS

Events or transactions occurring after the balance sheet date have been evaluated through September 14, 2010, the date the financial statements were available to be issued. The financial statements and the notes thereto do not reflect events or transactions after this date.

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SUPPLEMENTAL SCHEDULE

SOUTHSIDE ACADEMY CHARTER SCHOOL

SCHEDULE OF FUNCTIONAL EXPENSES YEAR ENDED JUNE 30, 2010

	Program Services		Supporting Services	Total
	Regular Education	Special Education	Management and General	
Contracted service fee:				
Salaries and wages	\$ 2,033,591	\$ 98,681	\$ -	\$ 2,132,272
Retirement contributions	40,736	2,764	-	43,500
Other employee benefits	358,230	20,264	-	378,494
Payroll taxes	176,891	8,356	-	185,247
Accounting fees	11,124	-	141,847	152,971
Supplies	121,282	3,278	-	124,560
Postage and shipping	6,169	-	-	6,169
Occupancy	1,662,696	-	12,517	1,675,213
Food service	390,435	-	-	390,435
Equipment rental and maintenance	32,808	1,689	-	34,497
Printing and publications	33,627	-	-	33,627
Travel	2,808	101	-	2,909
Professional development and meetings	52,167	-	-	52,167
Professional fees	89,602	126,236	-	215,838
Instructional support	-	-	138,676	138,676
Academic and general support	-	-	747,125	747,125
Enrollment and parent relations	-	-	70,823	70,823
Board support	-	-	153,308	153,308
Human resources	-	-	301,262	301,262
Technology services	1,970	-	266,047	268,017
Marketing and business development	985	-	49,752	50,737
Insurance	16,708	-	-	16,708
Miscellaneous	16,542	-	58,205	74,747
	<u>\$ 5,048,371</u>	<u>\$ 261,369</u>	<u>\$ 1,939,562</u>	<u>\$ 7,249,302</u>
Total contracted service fee	<u>\$ 5,048,371</u>	<u>\$ 261,369</u>	<u>\$ 1,939,562</u>	<u>\$ 7,249,302</u>

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

Board of Trustees
Southside Academy Charter School
Syracuse, New York

We have audited the financial statements of Southside Academy Charter School (the “School”) as of and for the year ended June 30, 2010, and have issued our report thereon dated September 20, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School’s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School’s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the School’s internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis.

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

Compliance and Other Matters

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

This report is intended solely for the information and use of the Board of Trustees, management of the School, National Heritage Academies, Inc., the Board of Regents of the State of New York, the New York State Education Department, federal awarding agencies and state funding agencies and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Deloitte & Touche LLP". The signature is written in a cursive, flowing style.

September 20, 2010