

**SISULU-WALKER CHARTER  
SCHOOL OF HARLEM, INC.**

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**Financial Statements and Supplemental Information  
For the Years Ended June 30, 2008 and 2007  
With Report of Independent Auditors**

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**SISULU-WALKER CHARTER SCHOOL OF HARLEM, INC.**  
June 30, 2008 and 2007

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## REPORT OF INDEPENDENT AUDITORS

Board of Trustees  
Sisulu-Walker Charter School of Harlem, Inc.

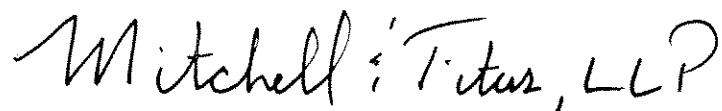
We have audited the accompanying statements of financial position of Sisulu-Walker Charter School of Harlem, Inc. (the "School") as of June 30, 2008 and 2007, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the School's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the School's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit 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 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 audits provide 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 Sisulu-Walker Charter School of Harlem, Inc. at June 30, 2008 and 2007, and the change in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 28, 2008 on our consideration of Sisulu-Walker Charter School of Harlem, Inc.'s internal control over financial reporting and on 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 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.

Our audits were performed for the purpose of forming an opinion on the financial statements of the School taken as a whole. The accompanying 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 taken as a whole.



October 28, 2008

**SISULU-WALKER CHARTER SCHOOL OF HARLEM, INC.**  
 Statements of Financial Position  
 As of June 30, 2008 and 2007

	<b>2008</b>	<b>2007</b>
<b>ASSETS</b>		
<i>Current Assets:</i>		
Cash and cash equivalents (Note 2)	\$ 352,972	\$ 266,815
Due from government agencies (Note 3)	472,167	436,147
Accounts receivable	-	23,723
Prepaid expenses	58,448	55,241
Total current assets	883,587	781,926
Security deposits	37,500	37,500
Property and equipment, net (Note 4)	59,052	67,647
Total assets	\$ 980,139	\$ 887,073
<b>LIABILITIES AND NET ASSETS</b>		
<i>Current Liabilities:</i>		
Accounts payable and accrued expenses	\$ 291,697	\$ 294,334
Unearned income	111,337	499
Obligation under capital lease	151	6,587
Due to management company (Note 9)	748	89,396
Total liabilities	403,933	390,816
<i>Net Assets:</i>		
Unrestricted	576,206	496,257
Total liabilities and net assets	\$ 980,139	\$ 887,073

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

**SISULU-WALKER CHARTER SCHOOL OF HARLEM, INC.**  
 Statements of Activities  
 For the Years Ended June 30, 2008 and 2007

	<b>2008</b>	<b>2007</b>
<b>REVENUE AND SUPPORT</b>		
Resident student enrollment	\$ 2,879,847	\$ 2,467,850
Students with disabilities	20,590	60,209
Food service	99,130	78,604
Federal funding	193,283	159,256
Government grants-federal	306,676	230,672
State funding	20,111	19,246
Private contributions	3,194	34,012
Interest and other income	32,741	14,030
Total revenue and support	3,555,572	3,063,879
<b>EXPENSES</b>		
<i>Program Expenses:</i>		
Regular education	2,942,057	2,630,515
Special education	192,999	182,374
Total program expenses	3,135,056	2,812,889
<i>Supporting Services:</i>		
Management and general	340,567	301,601
Total expenses	3,475,623	3,114,490
Change in net assets	79,949	(50,611)
Unrestricted net assets at beginning of year	496,257	546,868
<b>Unrestricted net assets at end of year</b>	<b>\$ 576,206</b>	<b>\$ 496,257</b>

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

**SISULU-WALKER CHARTER SCHOOL OF HARLEM, INC.**

Statements of Cash Flows

For the Years Ended June 30, 2008 and 2007

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	<u>2008</u>	<u>2007</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 79,949	\$ (50,610)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	42,857	63,518
(Increase) decrease in due from government agencies	(36,020)	167,647
Decrease (increase) in accounts receivable	23,723	(17,513)
Increase in prepaid expenses	(3,207)	(15,539)
Decrease in accounts payable	(2,637)	(101,971)
Increase in unearned income	110,838	499
Decrease in due to management company	(88,648)	(7,805)
Net cash provided by operating activities	<u>126,855</u>	<u>38,226</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of property and equipment	(34,262)	(46,702)
Security deposit refund	-	2,881
Net cash used in investing activities	<u>(34,262)</u>	<u>(43,821)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Payments of capital lease obligation	(6,436)	-
Net cash used in financing activities	<u>(6,436)</u>	<u>-</u>
Net increase (decrease) in cash and cash equivalents	86,157	(5,595)
Cash and cash equivalents, beginning of year	<u>266,815</u>	<u>272,410</u>
<b>Cash and cash equivalents, end of year</b>	<u>\$ 352,972</u>	<u>\$ 266,815</u>

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

# SISULU-WALKER CHARTER SCHOOL OF HARLEM, INC.

Notes to Financial Statements

June 30, 2008 and 2007

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## NOTE 1 ORGANIZATION SUMMARY

Sisulu-Walker Public Charter School of Harlem, Inc. (the "School") is a charter school located in Harlem, New York. In fiscal year 2008, the School operated kindergarten and grades one through four. It educates children on a completely nondiscriminatory and secular basis. The founders and supporters of the School believe that access to a public education of high quality for all children is the foremost issue. The School was chartered during August 1999 and the first classes were offered during the 1999–2000 school year.

## NOTE 2 SIGNIFICANT ACCOUNTING POLICIES

### Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis in accordance with accounting principles generally accepted in the United States for not-for-profit organizations. Accordingly, the School is required to report its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted.

The School's net assets consist of the following:

*Unrestricted*—Net assets of the School which have not been restricted by an outside donor or by law and are therefore available for use in carrying out the operations of the School.

### Cash and Cash Equivalents

The School has defined cash and cash equivalents as cash and short-term, interest-bearing deposits with original maturities of three months or less.

### Property and Equipment

Property and equipment are stated at cost less accumulated depreciation. Depreciation is computed on a straight-line basis over the estimated useful lives of the related assets. Normal replacement and maintenance costs are charged to earnings as incurred, and major renewals and improvements are capitalized. Upon disposition, the cost and related accumulated depreciation is removed from the accounts and the resulting gain or loss for the period is recognized. The School capitalizes assets with a cost of \$500 and over. Depreciation is calculated based on the useful lives of the assets as follows:

	Useful Life (Years)
Furniture and fixtures	7
Office equipment	3
Computer equipment	3
Leasehold improvements	5

SISULU-WALKER CHARTER SCHOOL OF HARLEM, INC.

Notes to Financial Statements

June 30, 2008 and 2007

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**NOTE 2**      **SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

Contributions

The School records contributions of cash and other assets as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and nature of donor restrictions. The School records contributions as temporarily 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 statements of activities as net assets released from restrictions. All contributions received in the year ended 2008 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 activities, which includes all expenses incurred for the year. Accordingly, certain costs have been allocated among the programs and supporting services benefited, based on usage or other equitable bases established by management.

Student Enrollment

Enrollment of available class slots is open to all potential student candidates with those residing in the immediate area given first preference. A lottery is held to award these available slots.

Government Grant Income

The School applies for various government grants each year which is based on several factors such as total students enrolled in the School. Reimbursement under per-pupil grants is the result of the calculation of full-time equivalent ("FTE") students attending the School multiplied by a rate determined each year by New York State.

Tax Status

The School is exempt from federal income tax under Section 501(c)(3) of the United States Internal Revenue Code.

**SISULU-WALKER CHARTER SCHOOL OF HARLEM, INC.**

Notes to Financial Statements

June 30, 2008 and 2007

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**NOTE 2      SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, 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.

**NOTE 3      PUPIL ENROLLMENT AND OTHER REVENUES FROM GOVERNMENT AGENCIES**

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 are available to public schools. These funds include state pupil enrollment funds, federal food subsidies, and Titles I, II, IV, and V 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 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 government agencies and included as revenue in the statement of activities consist of the following as of June 30, 2008 and 2007:

	<u>2008</u>	<u>2007</u>
Federal Government	\$ 472,167	\$ 393,257
New York State Department of Education (per pupil enrollment)	<u>-</u>	<u>42,890</u>
	<u>\$ 472,167</u>	<u>\$ 436,147</u>

The amounts are based upon 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 to be received.

**SISULU-WALKER CHARTER SCHOOL OF HARLEM, INC.**  
Notes to Financial Statements  
June 30, 2008 and 2007

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**NOTE 4      PROPERTY AND EQUIPMENT**

Property and equipment are summarized by major classifications as follows:

	2008	2007
Leasehold improvements	\$ 77,145	\$ 77,145
Furniture and fixtures	151,514	135,550
Computer equipment	185,397	167,099
Office equipment	40,345	40,345
	454,401	420,139
Less: Accumulated depreciation	(395,349)	(352,492)
Total	59,052	67,647

Depreciation expense for the years ended June 30, 2008 and 2007, was \$42,857 and \$63,518, respectively.

**NOTE 5      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 pretax contributions of 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 employer contributions recognized in the statement of activities were \$42,222 and \$24,386 for 2008 and 2007, respectively. 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 6      COMMITMENTS**

The School is paying rent for classroom instruction and administration activity space under a month-to-month lease. Monthly rental payments total \$38,625.

**SISULU-WALKER CHARTER SCHOOL OF HARLEM, INC.**

Notes to Financial Statements

June 30, 2008 and 2007

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**NOTE 7      MANAGEMENT COMPANY**

Under its current agreement, Victory Schools (“Victory”) is paid a management fee in an amount equal to the product of the total full-time equivalent enrollment of students in the Charter School, as defined under Section 119.1 of New York State Commissioner of Education Regulations, multiplied by \$1,000 (the “Per Pupil Fee”). The Per Pupil Fee is adjusted annually based on the percentage change in the in the full-time equivalent enrollment.

Victory is entitled to receive the service fee on a bi-monthly basis. Any VSI Fee, or portion thereof, not paid within thirty (30) days of its due date shall bear interest at an annualized rate of 7.5% 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 period ended June 30, 2008 and 2007, was \$316,987 and \$271,667, respectively. No interest was charged to the School by Victory during the year.

**NOTE 8      CONCENTRATION OF RISK**

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, there could be a substantial effect on its ability to continue operations.

**NOTE 9      RELATED-PARTY TRANSACTION**

The amounts due to the management company are \$748 and \$89,396 for the years ended June 30, 2008 and 2007, respectively. These relate to management and central services fees discussed in Note 7 above

**NOTE 10     CONTINGENCIES**

The School participates in a number of federal and state programs. These programs require that the School comply 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 grants and 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

**SISULU-WALKER CHARTER SCHOOL OF HARLEM, INC.**

Notes to Financial Statements

June 30, 2008 and 2007

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been made in the accompanying financial statements.

**SISULU-WALKER CHARTER SCHOOL OF HARLEM, INC.**

Schedule of Functional Expenses

For the Year Ended June 30, 2008

(With Comparative Totals for 2007)

<b>EXPENSES</b>	<u>Regular Education</u>	<u>Special Education</u>	<u>Total Program</u>	<u>Management and General</u>	<u>Total 2008</u>	<u>Total 2007</u>
<i>Personnel Expenses:</i>						
Salaries and wages	\$ 1,641,376	\$ 107,675	\$ 1,749,051	\$ -	\$1,749,051	\$ 1,534,254
Fringe benefits	366,129	24,018	390,147	-	390,147	366,826
Total personnel expense	<u>2,007,505</u>	<u>131,693</u>	<u>2,139,198</u>	<u>-</u>	<u>2,139,198</u>	<u>1,901,080</u>
<i>Operating Expenses:</i>						
Contracted services-management company	-	-	-	316,987	316,987	271,667
Contracted services-other	60,785	3,988	64,773	-	64,773	600
Food	101,474	6,657	108,131	-	108,131	82,212
Insurance	32,512	2,133	34,645	-	34,645	24,138
Supplies and materials	34,700	2,276	36,976	-	36,976	62,504
Textbooks	61,228	4,017	65,245	-	65,245	58,926
Telephone	11,578	759	12,337	-	12,337	17,034
Occupancy	505,655	33,171	538,826	-	538,826	469,898
Printing	8,930	586	9,516	-	9,516	3,916
Staff development	26,220	1,720	27,940	-	27,940	43,781
Equipments rental/lease	3,128	205	3,333	-	3,333	8,655
Accounting/auditing fees	-	-	-	23,500	23,500	27,257
Maintenance and repairs	14,258	935	15,193	-	15,193	7,143
Transportation (Student)	4,633	304	4,937	-	4,937	835
Travel	6,009	394	6,403	-	6,403	6,632
Board expenses	-	-	-	80	80	2,677
Depreciation	40,219	2,638	42,857	-	42,857	63,518
Other	23,223	1,523	24,746	-	24,746	62,017
Total operating expense	<u>934,552</u>	<u>61,306</u>	<u>995,858</u>	<u>340,567</u>	<u>1,336,425</u>	<u>1,213,410</u>
Total expense	<u>\$ 2,942,057</u>	<u>\$ 192,999</u>	<u>\$ 3,135,056</u>	<u>\$ 340,567</u>	<u>\$3,475,623</u>	<u>\$ 3,114,490</u>

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

Board of Trustees  
Sisulu-Walker Charter School of Harlem, Inc.  
New York, New York

We have audited the financial statements of Sisulu-Walker Charter School of Harlem, Inc. (the "School") as of and for the year ended June 30, 2008, and have issued our report thereon dated October 28, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States 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 express no such opinion.

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 entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is a more than remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in a more than remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity'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 weakness. 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, pertinent 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.

*Mitchell & Titus, LLP*

October 28, 2008