RIVERHEAD CHARTER SCHOOL, INC.

FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT

FOR THE YEARS ENDED JUNE 30, 2009 AND 2008

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CERINI & ASSOCIATES LLP
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
Riverhead Charter School, Inc.
3685 Middle Country Road
Calverton, New York 11933

We have audited the accompanying statements of financial position of the Riverhead Charter School, Inc. ("the School," a not-for-profit organization) as of June 30, 2009 and 2008, and the related statements of activities, functional expenses, 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 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 audits 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 financial statements referred to above present fairly, in all material respects, the financial position of the School, 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 School's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. 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 audits.

Cerini & Associates LLP

Bohemia, New York
October 23, 2009

STATEMENTS OF FINANCIAL POSITION
JUNE 30,

		2009		2008
ASSETS (Note 7)				
Current Assets:				
Cash (Note 3)	$	2,150,025	$	1,083,168
Investments (Note 2)		56,833		55,438
Prepaid expenses		19,364		20,048
Accounts receivable, net (Note 8)		225,222		1,912,287
Grants receivable (Note 8)		182,516		663,417
TOTAL CURRENT ASSETS		2,633,960		3,734,358
Property and equipment, net (Notes 6 and 7)		3,268,342		3,597,742
Security deposit		1,060		1,060
Restricted cash (Note 9)		75,000		75,000
TOTAL ASSETS	$	5,978,362	$	7,408,160
LIABILITIES AND NET ASSETS / (DEFICIT)				
Current Liabilities:				
Accounts payable and accrued expenses	$	520,797	$	440,827
Due to funding sources and school districts		91,747		90,550
Current portion of amounts due to Edison Schools, Inc. (Notes 4 and 7)		223,065		1,925,073
Current portion of notes payable (Notes 4 and 7)		84,358		-
TOTAL CURRENT LIABILITIES		919,967		2,456,450
Due to Edison Schools, Inc., net of current portion (Notes 4 and 7)		851,801		1,074,927
Notes payable, net of current portion (Notes 4 and 7)		3,589,702		4,412,238
TOTAL LIABILITIES		5,361,470		7,943,615
Commitments and contingencies (Notes 3, 4, 5, 6, 7, 9, and 10)				
Net assets / (deficit)		616,892		(535,455)
TOTAL LIABILITIES AND NET ASSETS / (DEFICIT)	$	5,978,362	$	7,408,160

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

STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30,

	2009	2008
REVENUE AND SUPPORT:		
Tuition and program service income (Notes 3 and 4)	$ 3,574,293	$ 3,839,556
Government grants (Notes 3 and 9)	332,031	391,168
Investment income	7,275	2,922
Fundraising income	4,616	5,585
TOTAL REVENUE AND SUPPORT	3,918,215	4,239,231
EXPENSES:		
Program services	2,783,328	3,274,925
Management and general	670,314	557,624
TOTAL EXPENSES	3,453,642	3,832,549
Income from operations	464,573	406,682
Forgiveness of debt (Notes 4 and 7)	687,774	186,840
Change in net assets/(deficit)	1,152,347	593,522
Net deficit, beginning of year	(535,455)	(1,128,977)
Net assets/(deficit), end of year	$ 616,892	$ (535,455)

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

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2009

	Program Services	Management and General	Total
Salaries and wages	$ 1,297,206	$ 384,449	$ 1,681,655
Payroll taxes and related benefits	464,022	143,098	607,120
Advertising	7,449	-	7,449
Occupancy costs	52,724	5,752	58,476
Contracted services	50,494	84,696	135,190
Travel and transportation	170,650	330	170,980
Supplies	35,327	8,195	43,522
Core curriculum	29,744	-	29,744
Telephone and communications	11,740	3,620	15,360
Repairs and maintenance	79,758	6,570	86,328
Equipment	4,850	4,454	9,304
Meals and entertainment	-	930	930
Depreciation expense	363,774	5,540	369,314
Interest expense (Note 6)	181,895	2,770	184,665
Conferences	14,394	7,046	21,440
Recruitment	1,917	125	2,042
Insurance	18,745	12,505	31,250
Bad debts	-	-	-
Miscellaneous	(1,361)	234	(1,127)
	$ 2,783,328	$ 670,314	$ 3,453,642

STATEMENT OF FUNCTIONAL EXPENSES FOR THE YEAR ENDED JUNE 30, 2008

	Program Services	Management and General	Total
Salaries and wages	$ 1,560,985	$ 287,003	$ 1,847,988
Payroll taxes and related benefits	489,210	89,946	579,156
Advertising	-	28,672	28,672
Occupancy costs	57,442	875	58,317
Contracted services	11,591	31,999	43,590
Travel and transportation	192,502	20,417	212,919
Supplies	26,208	4,818	31,026
Core curriculum	41,586	-	41,586
Telephone and communications	11,744	2,159	13,903
Repairs and maintenance	181,922	2,771	184,693
Equipment	10,779	1,981	12,760
Management fee (Note 4)	40,578	(497,999)	(457,421)
Depreciation expense	150,435	2,292	152,727
Interest expense (Note 6)	444,217	6,765	450,982
Conferences	28,884	5,310	34,194
Recruitment	441	-	441
Insurance	24,263	368	24,631
Bad debt expense	-	526,172	526,172
Miscellaneous	2,138	44,075	46,213
	$ 3,274,925	$ 557,624	$ 3,832,549

STATEMENTS OF CASH FLOWS
JUNE 30,

	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	$ 1,152,347	$ 593,522
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation expense	369,314	152,727
Bad debt expense	-	526,172
Forgiveness of debt	(687,774)	(186,840)
Changes in operating assets and liabilities:		
Accounts receivable	1,687,065	(1,321,265)
Grants receivable	480,901	(364,614)
Prepaid expenses	683	(20,048)
Accounts payable and accrued expenses	79,970	(133,723)
Due to funding sources and school districts	1,197	90,550
Net cash provided by/(used in) operating activities	3,083,703	(663,519)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of fixed assets	(39,913)	-
Purchase of investments	(1,395)	(1,670)
Cash used in investing activities	(41,308)	(1,670)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Loan from Edison Schools, Inc	-	1,924,312
Repayment to Edison Schools, Inc	(1,237,360)	-
Repayment of debt	(738,178)	(177,465)
Net cash (used in)/provided by financing activities	(1,975,538)	1,746,847
Net change in cash	1,066,857	1,081,658
Cash, beginning of year	1,083,168	1,510
Cash, end of year	$ 2,150,025	$ 1,083,168
OTHER SUPPLEMENTAL INFORMATION:		
Interest paid	$ 184,665	$ 450,982

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies of the Riverhead Charter School, Inc. (hereinafter "the School") is presented to assist in understanding the School's financial statements. These financial statements and notes are representations of the School's management, which is responsible for the integrity and objectivity of the financial statements. These accounting policies conform to accounting principles generally accepted in the United States of America and have been consistently applied in the preparation of the financial statements.

Organization: The School is a not-for-profit organization that was incorporated under Article 56 of the Education Law on February 1, 2001 pursuant to a five-year provisional charter granted by the Education Department of the State of New York ("NYSED"). The School's main objective is to offer students a true choice in public education, which promotes love of learning and local exploration. The School's goal is to provide a rigorous community of learning, which is inviting and stimulating to staff and parents, as well as students. The School intends to reverse the current spiral of student failure and meet or exceed State and federal standards, to nurture the individual gifts of every student, and to prepare them for a rewarding community life. On April 21, 2009, the School's charter was renewed by the Education Department of the State of New York through June 30, 2014.

Income Tax Status: The School is exempt from federal tax under the Internal Revenue Code Section 501(c)(3) and is publicly supported, as described in Section 509(a).

Revenue Recognition: The School recognizes revenue on government and private grants when reimbursable expenditures under qualified programs are expended. Grants are typically fully expended within a one-year cycle. Tuition income is earned as education is provided to students enrolled at the School.

Basis of Accounting: The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles. Revenue is recorded as earned and expenses are recorded when incurred.

Advertising: The School uses advertising to promote its program and fundraising events among the public it serves. The production costs of advertising are expensed as incurred.

Use of Estimates: The presentation 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. Actual results could differ from these estimates.

Basis of Presentation: Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards ("SFAS") No. 117, "*Financial Statements of Not-for-Profit Organizations.*" Under SFAS No. 117, the School is required to report information regarding its financial position and activities according to three classes of net assets; unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Donated Services: No amounts have been reflected in the financial statements for donated services. The School generally pays for services requiring specific expertise. However, many individuals volunteer their time and perform a variety of tasks that assist the School with programs, management, and various committee assignments.

Expense Allocation: Directly identifiable expenses are charged to programs and supporting services. Expenses related to more than one function are allocated to programs and supporting services based upon management estimates.

Contributions: Contributions are recognized when the donor makes a promise to give to the School that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

Property and Equipment: Property and equipment are stated at original cost. Those assets acquired by gift are carried at fair market value established at the date of acquisition. Maintenance and repairs are charged to expense and betterments are capitalized. Depreciation expense is computed using the straight-line method over each asset's estimated useful life as follows:

Building	25 years
Building improvements	10 – 25 years
Equipment	3.5 – 5 years

A half-year of depreciation is generally provided in the years of acquisition and disposal.

Subsequent Events: The School has evaluated events and transactions that occurred between July 1, 2009 and October 23, 2009, which is the date the financial statements were available to be issued, for possible disclosure and recognition in the financial statements.

NOTE 2 - INVESTMENTS

The School has adopted SFAS No. 157, "*Fair Value Measurements,*" for investments, which are presented in the statements of financial position at fair value. SFAS No. 157 establishes a fair value hierarchy that prioritizes the inputs in the valuation techniques used to measure fair value into three broad levels (Level 1, 2, and 3).

- Level 1: Level 1 instruments are valued using observable inputs that reflect quoted prices for identical assets or liabilities in active markets that the School has the ability to access at the measurement date. Level 1 assets include highly-liquid U.S. Treasury securities and exchange-traded equity securities.

- Level 2: Level 2 instruments are valued using observable inputs, other than quoted prices included in Level 1, for the asset or liability or prices for similar assets and liabilities. Most debt securities and some preferred stocks are model priced by vendors using observable inputs and are classified within Level 2. Also included in the Level 2 category are derivative instruments that are priced using models with observable market inputs, including interest rate, foreign currency, and certain credit swap contracts.

- Level 3: Level 3 instruments are valued using valuations that are derived from techniques in which one or more of the significant inputs are unobservable (including assumptions about risk). Level 3 securities include less liquid securities such as highly-structured and/or lower quality asset-backed securities ("ABS") and commercial mortgage-backed securities ("CMBS"), including ABS backed by sub-prime loans, and private placement debt and equity securities. Embedded derivatives and complex derivatives securities, including equity derivatives, longer dated interest rate swaps and certain complex credit derivatives are also included in Level 3. Because Level 3 fair values, by their nature, contain unobservable market inputs as there is no observable market for these assets and liabilities, considerable judgment is used to determine the SFAS No. 157 Level 3 fair values. Level 3 fair values represent the School's best estimate of an amount that could be realized in a current market exchange absent actual market exchanges.

All of the investments held by the School are in certificates of deposit ("CD's") which are considered Level 1 investments and are presented in the accompanying financial statements at fair value. The fair value of the CD's are determined based upon quoted prices at June 30, 2009 and 2008.

Interest income from such CD's amounted to $7,275 and $2,922 for the years ended June 30, 2009 and 2008 respectively.

NOTE 3 - CONCENTRATIONS OF CREDIT RISK

From time to time, the School has cash on deposit with a financial institution in excess of Federal Deposit Insurance Corporation-insured limits. At June 30, 2009, this amount was approximately $1,938,306.

During fiscal 2009, approximately 91% of the School's total support and revenue was comprised of tuition income from several Eastern Suffolk County School districts, the largest of which were: Riverhead Central School District (45%), Longwood Central School District (14%), William Floyd District (20%), South Country District (7%), and other School districts (14%). The remaining 10% was primarily comprised of grants from the Education Department of the State of New York.

Effective July 1, 2006, the School entered into a collective bargaining agreement with its teachers and teacher assistants through the Teachers Association. The agreement, which expired on June 30, 2008, provided for merit-based increases for teachers and 4.0% and 4.4% raises for teacher assistants for fiscal 2008 and fiscal 2007, respectively. The School and the Teachers Association are currently in negotiations for a successor to the agreement. As of the date of this report, the terms and conditions set forth in the expired agreement will continue, except for salary increases, which are on hold until an agreement is reached.

NOTE 4 - CONTRACTUAL OBLIGATIONS

On July 12, 2001, the School entered into a contract with Edison Schools, Inc. ("Edison") to serve as the School's management company. This contract expired on June 30, 2006 and the School entered into a new contract. The new contract, which expired on June 30, 2008, required Edison, to the extent permitted by law, to provide the School with a complete educational program and the related management and administrative services necessary to implement the program, including billing and collections.

In exchange for its services, the contract specified that Edison would receive a fee based upon the total revenue and earnings of the School, net of debt service and a fixed fee ($70,000 for 2008), which was controlled by the Board of the School. The contract excluded from the definition of total revenue contributions or grants raised solely by the School's activities.

Pursuant to the management agreement, debt service and related interest was paid prior to any expenditures. Edison's management fee was subordinated to the payment of all of the School's operating costs. Even so, the contract provided for a minimum management fee to Edison for fiscal 2008 of $412,000.

Effective July 1, 2008, the School terminated its management agreement with Edison. As part of the termination settlement, Edison agreed to waive the minimum management fee for 2008. A management fee of ($457,421) is reflected in the statement of functional expenses for the year ended June 30, 2008, which reflects losses incurred by the School during 2008 (principally

NOTE 4 - CONTRACTUAL OBLIGATIONS (*continued*)

attributable to significant bad debt write-offs and amortization of prior losses as discussed below). Edison agreed to absorb these losses in conjunction with the settlement. In addition, as outlined in Note 7, pursuant to the separation agreement, Edison agreed to accept $3,000,000 in full settlement of the unsecured balance outstanding at June 30, 2008.

Pursuant to the initial management agreement, if revenues earned by the School were insufficient to pay the School's expenses and Edison's management fee, the School would owe the shortfall to Edison. The effect of cumulative shortfalls; however, was limited to the greater of $500,000 or the cash balance held by the School at the end of the year. For the year ended June 30, 2005, the cumulative shortfall from operations exceeded the $500,000 outlined in the management agreement and thus an accrual of $500,000 of additional management fees was established during the year ended June 30, 2005. This amount was included in Due to Edison Schools, Inc. for the year then ended. At June 30, 2006 the cumulative shortfalls were still in excess of $500,000, but no additional accrual was necessary. This amount was amortized during 2008 ($333,333) and 2007 ($166,667) and was reflected as reductions in the amount due to Edison and to Edison's management fee.

Prior to 2007, Edison loaned the School a total of $4,010,488 to purchase the necessary land and to build a physical structure that would enable the School to expand its enrollment. This amount is being repaid to Edison. (See Note 7).

Edison was responsible for billing and collections of all accounts receivable. According to the agreement that was in place with Edison, any shortfall on collection of receivables was the responsibility of Edison and was reflected as a reduction in the management fee in the period the receivables were deemed uncollectible. Edison actively pursued all accounts outstanding through June 30, 2008 to the extent that services had been provided. During the year ended June 30, 2008, a reserve of $791,034 had been established.

The School's employees were compensated according to Edison's compensation policies, which the Board had reviewed and adopted as its own, and which may include performance-based incentives. In addition, effective July 1, 2006, the School entered into a collective bargaining arrangement with its teachers and teacher assistants (See Note 3).

NOTE 5 - LEASE COMMITMENTS

The School leases various equipment with options to purchase the equipment at the end of the lease terms for its then-fair market value. Minimum lease payments on an annual basis are as follows for the years ending June 30:

2010	$ 6,041
2011	2,177
	$ 8,218

NOTE 6 - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at June 30:

	2009	2008
Land	$ 794,457	$ 794,457
Building	2,709,386	2,951,754
Building improvements	658,190	658,190
Equipment	198,650	158,737
	4,360,683	4,563,138
Less: accumulated depreciation	(1,092,341)	(965,396)
	$ 3,268,342	$ 3,597,742

During fiscal 2009 and 2008, the School incurred interest on its outstanding debt (See Note 7) of $184,665 and $450,982, respectively. No interest was capitalized in either year as construction was complete and the building was being fully utilized. At June 30, 2009 and 2008, capitalized interest amounted to $310,214. This has been included in the cost of the administration building at June 30, 2009 and 2008, and is being depreciated over the life of the building.

During fiscal 2009, building construction having a net book value of $203,589 was deemed to have been impaired due to the cancellation of the construction project and were written off as impairment loss. Impairment loss is included with depreciation expense on the statement of functional expenses.

During 2002, the School purchased equipment with federal Public Charter Schools Program grant funds. Pursuant to the contract, the New York State Education Department has the right to reclaim equipment purchased with these funds if the program in conjunction with which they are used is terminated. These assets were fully depreciated as of June 30, 2009 and 2008.

NOTE 7 - COMMITMENTS FOR CAPITAL EXPENDITURES

On August 22, 2001, the School purchased a building and one acre of land in Calverton, New York for $850,000. This building currently serves as the schoolhouse for kindergarten and first grade classes. During February 2002, the School also purchased an additional five acres of adjacent land for $490,000, upon which a new facility will be constructed to house the balance of the School's classes and ancillary curriculum. The School has completed the construction of its administrative facilities and has constructed a portion of the necessary infrastructure. Until construction is complete, the School is utilizing modular classrooms for its second through fifth grade classes.

In order to finance these and future capital expenditures, the School borrowed approximately $4,010,488 in principal from Edison under two separate promissory notes payable. These notes, which bore interest at an annual rate of 10%, were secured by a mortgage, assignment of leases and rents, and a security agreement covering substantially all assets of the School. On May 15, 2004, Edison amended and restated the construction loan. The restated loan terms were as follows:

> The first note payable, as restated on May 15, 2004, has a maximum principal sum of $3,703,000. Accrued interest through the conversion date is not included in the maximum principal sum; however, it is included as total debt to be amortized. Effective August 1, 2004, the loan was converted to a permanent loan whereby the entire outstanding principal and related accrued interest through that date were converted into a term loan with a 20-year amortization and a maturity date of September 30, 2006. The maturity date was subsequently extended by Edison to July 31, 2008.

Total accrued interest and total debt including accrued interest at June 30, 2008 was as follows:

Accrued interest	$ 753,253
Total debt including accrued interest	3,898,140

> The second note payable dated January 4, 2002 has a maximum principal sum of $538,806. Accrued interest through the conversion date is not included in the maximum principal sum; however, it is included as total debt to be amortized. Effective July 1, 2002, the entire outstanding balance was converted to a permanent loan with a 20-year amortization and a maturity date of January 31, 2007. The maturity date was subsequently extended by Edison to July 31, 2008.

NOTE 7 - COMMITMENTS FOR CAPITAL EXPENDITURES (*continued*)

Total accrued interest and total debt including accrued interest at June 30, 2008 was as follows:

Accrued interest	$ 107,229
Total debt including accrued interest	514,098

As outlined in Note 4, the School terminated the management agreement with Edison. On October 24, 2008, the School and Edison signed a termination agreement with regards to its unsecured debt as follows:

> Edison accepted $3,000,000 in full payment of the unsecured working capital advances it has provided the School (as discussed in Note 4). This was evidenced by a promissory note payable at $1,800,000 during November 2008, with the $1,200,000 balance payable in sixty monthly payments, commencing in December 2008, of $22,645 including principal and interest at 5%.

This resulted in forgiveness of debt to the School during fiscal 2008 of $186,840.

During December 2008, Edison signed an agreement with respect to its secured note. The terms of the termination agreement are as follows:

> Edison accepted $3,725,000 in full settlement of the aforementioned secured debt. This amount is payable over a twenty-year amortization of $28,880 of principal and interest per month commencing January 2009, with a balloon payment of the then outstanding balance due on the loans' five year anniversary. Providing the School is not in default with any of the terms of the termination agreement, the School, at its option, can renew the loan for three more five-year terms at the same twenty-year amortization as the initial loan. The loan is secured by the School's property which had a net book value of $3,232,627 at June 30, 2009. The debt to Edison bears interest at 7%.

The result of this agreement was forgiveness of debt to the School by Edison of $687,774, which has been reflected as forgiveness of debt income during fiscal 2009.

NOTE 7 - COMMITMENTS FOR CAPITAL EXPENDITURES (*continued*)

Future obligations pursuant to the outstanding long-term debt obligations to Edison are as follows for the years ending June 30,:

	Due to Edison	Note Payable	Total
2010	$ 223,065	$ 84,358	$ 307,423
2011	234,478	98,397	332,875
2012	246,474	105,510	351,984
2013	259,084	113,137	372,221
2014	111,765	121,316	233,081
Thereafter	-	3,151,342	3,151,342
Total	$ 1,074,866	$ 3,674,060	$ 4,748,926

NOTE 8 - ACCOUNTS AND GRANTS RECEIVABLE

Accounts receivable consists of tuition receivable from various Long Island-based public school districts. Of the tuition receivable, 18% and 45% was due from Riverhead Central School District, 14% and 18% Longwood Central School District, 24% and 17% William Floyd Union Free School District, and 18% and 0% Middle Country Central School District as of June 30, 2009 and 2008, respectively. The School has the ability to petition NYSED for monies overdue from the various school districts.

The School uses an allowance method to determine uncollectible accounts and grants receivable. The allowance for doubtful accounts is based primarily on the School's collection efforts and management's analysis of specific outstanding balances. The School does not impose interest or finance charges on overdue receivable balances. Collectibility is assessed on an individual account basis, and uncollectible accounts are written off against the allowance after approval by the School Board. As discussed in Note 4, during the year ended June 30, 2008, Edison was responsible for all billing and collection of accounts receivable, and would bear the loss of any shortfall in accounts not collected; however, there was a significant amount of receivables outstanding from prior years and as such, management had established reserves of $791,034 as of June 30, 2008. As of June 30, 2009, all uncollectible outstanding balances were written off, leaving no reserve for uncollectible accounts.

Furthermore, grants receivable of $182,516 and $663,417 at June 30, 2009 and 2008, respectively, were due from NYSED for reimbursable expenses incurred before year-end. All amounts have been deemed collectible at year-end.

NOTE 9 - GRANTOR RESTRICTIONS

Financial awards from governmental entities in the form of grants are subject to special audit. Such audits could result in claims against the School for disallowed costs or noncompliance with grantor restrictions. No provision has been made for any liabilities that may arise from such audits since the amounts, if any, cannot be determined at this date.

NYSED requires all Charter Schools to maintain $75,000 in a separate account to cover the cost of a potential closure should the School's charter not be renewed. This amount has to be maintained even when the Charter is renewed and has accordingly been reflected as restricted cash on the School's statements of financial position at June 30, 2009 and 2008.

NOTE 10 - LITIGATION

The School is involved in several claims and/or actions in the ordinary course of business. Management does not believe that any such claims would have a material adverse effect on the School's financial position, results of operations, or liquidity.

NOTE 11 - RECLASSIFICATION

Certain accounts from prior year financial statements have been reclassified to conform to the current year presentation.