

EQUALITY CHARTER SCHOOL

FINANCIAL STATEMENTS

**PERIOD FROM INCEPTION (JANUARY 13, 2009)
TO JUNE 30, 2010**

EQUALITY CHARTER SCHOOL
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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of
Equality Charter School

We have audited the accompanying statement of financial position of Equality Charter School (the "School") as of June 30, 2010, and the related statements of activities, functional expenses and cash flows for the period from January 13, 2009 (date of inception) to June 30, 2010. These financial statements are the responsibility of the School's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Equality Charter School as of June 30, 2010 and the changes in its net assets and its cash flows for the period ended June 30, 2010, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 25, 2010 on our consideration of the School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and on compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

ERE LLP

New York, NY
October 25, 2010

EQUALITY CHARTER SCHOOL
STATEMENT OF FINANCIAL POSITION

As of June 30, 2010

Assets:	
Cash and cash equivalents	\$ 296,777
Cash - restricted	10,023
Grant and other receivables	280,730
Prepaid expenses and other assets	11,093
Property and equipment, net	211,750
Total Assets	\$ 810,373
Liabilities and Net Assets:	
Liabilities:	
Accounts payable and accrued expenses	\$ 120,958
Accrued salaries and other payroll related expenses	98,161
Due to New York City Department of Education	17,188
Total Liabilities	236,307
Net Assets:	
Unrestricted	574,066
Total Liabilities and Net Assets	\$ 810,373

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

EQUALITY CHARTER SCHOOL

STATEMENT OF ACTIVITIES

Period from Inception (January 13, 2009) to June 30, 2010

Operating revenue:	
State and local per pupil operating revenue	\$ 2,061,801
Government grants and contracts	638,541
Total operating revenue	2,700,342
Expenses:	
Program services:	
General Education	1,346,306
Special Education	363,982
Management and general	465,344
Fundraising	6,636
Total operating expenses	2,182,268
Surplus from school operations	518,074
Contributions and other grants	54,715
Interest income	1,277
Change in net assets	574,066
Net assets – unrestricted – beginning of period	-
Net assets – unrestricted – end of period	\$ 574,066

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

EQUALITY CHARTER SCHOOL
STATEMENT OF FUNCTIONAL EXPENSES

Period from Inception (January 13, 2009) to June 30, 2010

	Program Services				Total	Management and General	Fundraising	Total
	General Education	Special Education						
Salaries	\$ 808,966	\$ 218,464	\$ 1,027,430	\$	235,464	\$ 3,218	\$ 1,266,112	
Payroll taxes and employee benefits	149,664	40,417	190,081		43,564	595	234,240	
Classroom supplies and instructional materials	107,710	28,632	136,342		-	-	136,342	
Consultants	26,212	6,968	33,180		134,254	-	167,434	
Accounting	-	-	-		20,500	-	20,500	
Advertising and recruiting	14,280	3,952	18,232		587	-	18,819	
Staff professional development	92,739	24,683	117,422		19,181	-	136,603	
Insurance	8,760	2,453	11,213		360	117	11,680	
Student transportation	592	158	750		-	-	750	
Student food services	6,090	1,619	7,709		-	-	7,709	
Dues and subscriptions	2,899	812	3,711		154	-	3,865	
Office expense	31,999	8,959	40,958		1,408	426	42,792	
Telephone and internet	8,156	2,284	10,440		327	109	10,876	
Conference and meetings	23,984	6,376	30,360		-	-	30,360	
Furniture and fixtures - non-capitalizable	5,251	1,396	6,647		6,124	-	12,771	
Technology and website	14,430	4,329	18,759		1,649	206	20,614	
Postage and delivery	4,058	1,136	5,194		161	1,425	6,780	
Depreciation and amortization	40,516	11,344	51,860		1,621	540	54,021	
Total expenses	\$ 1,346,306	\$ 363,982	\$ 1,710,288	\$	465,344	\$ 6,636	\$ 2,182,268	

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

EQUALITY CHARTER SCHOOL

STATEMENT OF CASH FLOWS

Period from Inception (January 13, 2009) to June 30, 2010

Cash flows from operating activities:	
Change in net assets	\$ 574,066
Adjustments to reconcile change in net assets to net cash and cash equivalents provided by operating activities:	
Depreciation and amortization	54,021
Changes in operating assets and liabilities:	
Increase in assets	
Cash - restricted	(10,023)
Grant and other receivables	(280,730)
Prepaid expenses and other assets	(11,093)
Increase in liabilities:	
Accounts payable and accrued expenses	120,958
Accrued salaries and other payroll related expenses	98,161
Due to New York City Department of Education	17,188
Net cash provided by operating activities	562,548
Cash flows from investing activities:	
Purchase of property and equipment	(265,771)
Net cash used in investing activities	(265,771)
Net increase in cash and cash equivalents	296,777
Cash and cash equivalents - beginning of period	-
Cash and cash equivalents - end of period	\$ 296,777

Supplementary Disclosure of Cash Flow Information:

Cash paid during the year for:

Interest	\$ -
Income taxes	\$ -

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

EQUALITY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

June 30, 2010

1. NATURE OF THE ORGANIZATION:

Equality Charter School (the "School") is a New York State, not-for-profit educational corporation that was incorporated on January 13, 2009 to operate a charter school pursuant to Article 56 of the Educational Law of the State of New York. The School was granted a provisional charter on January 13, 2009, valid for a term of five years and renewable upon expiration by the Board of Regents of the University of the State of New York. The School opened its doors in the Fall of 2009 in the North Bronx with a college preparatory academic program and a highly structured and supportive school culture. While the School is comprised of students from many backgrounds, it is uniquely designed to close the achievement gap in middle school and prepare students to be successful in college by focusing on the integration of goal setting, critical thinking and problem solving skills. The School is awaiting approval for Federal income tax exemption under section 501(a) of the Internal Revenue Code as an organization described in Section 501(c)(3) and is currently exempt under a similar provision under New York State income tax laws. The School has also been classified as an entity that is not a private foundation and qualifies for deductible contributions. The School's primary sources of income are per pupil and other government funding.

In fiscal year 2010, the School operated classes for students in sixth and seventh grades.

The New York City Department of Education ("NYCDOE") provides free lunches and transportation directly to a majority of the School's students. The School covers the cost of lunches for children not entitled to free lunches.

2. SIGNIFICANT ACCOUNTING POLICIES:

Financial Statement Presentation

The School's financial statements have been prepared on the accrual basis of accounting.

The classification of an organization's net assets and its support, revenues and expenses is based on the existence or absence of donor-imposed restrictions. It requires that the amounts for each of the three classes of net assets – permanently restricted, temporarily restricted, and unrestricted – be displayed in a statement of financial position and that the amounts of change in each of those classes of net assets be displayed in a statement of activities.

These classes are defined as follows:

Permanently Restricted – Net assets resulting from contributions and other inflows of assets whose use by the School is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the School.

Temporarily Restricted – Net assets resulting from contributions and other inflows of assets whose use by the School are limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the School pursuant to those stipulations. When such stipulations end or are fulfilled, such temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities. However, if a restriction is fulfilled in the same period in which the contribution is received, the School reports the support as unrestricted.

EQUALITY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS June 30, 2010

Unrestricted – The part of net assets that is neither permanently nor temporarily restricted by donor-imposed stipulations.

Cash and Cash Equivalents

The School considers all highly liquid instruments purchased with a maturity of three months or less to be cash equivalents. Cash equivalents consist of a money market account. In addition, an escrow account of \$10,023 is held aside for contingency purposes as required by the New York City Department of Education.

Grant and Other Receivables

Grants and other receivables represent unconditional promises to give. Grants and other receivables that are expected to be collected within one year and recorded at net realizable value are \$280,730 for the fiscal year ended June 30, 2010. The School has determined that no allowance for uncollectible accounts for grants receivable is necessary as of June 30, 2010. Such estimate is based on management's assessments of the creditworthiness of its donors, the aged basis of its receivables, as well as current economic conditions and historical information.

The carrying value of the grants and other receivables approximates fair value. Management reviews those receivables due in more than one year for impairment and none was determined as of June 30, 2010.

Property and Equipment

Property and equipment are stated at cost and are being depreciated on the straight-line method over the estimated useful lives of the assets. The School has established a \$1,000 threshold above which assets are capitalized. Leasehold improvements are amortized over the shorter of the life of the asset or the life of the lease. Property and equipment acquired with certain government contract funds is recorded as an expense pursuant to the terms of the contract in which the government funding source retains ownership of the property.

The School reviews long-lived assets to determine whether there has been any permanent impairment whenever events or circumstances indicate the carrying amount of an asset may not be recoverable. If the sum of the expected future undiscounted cash flows is less than the carrying amount of the assets, the School recognizes an impairment loss. No impairment losses were recognized for the year ended June 30, 2010.

Planned Maintenance

Costs related to planned major maintenance are expensed as incurred.

Revenue Recognition

Revenue from the state and local government resulting from the School's charter status is based on the number of students enrolled and is recorded when services are performed in accordance with the charter agreement.

EQUALITY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

June 30, 2010

Revenue from federal, state and local government grants and contracts are recorded by the School when qualifying expenditures are incurred and billable. Funds received in advance for which qualifying expenditures have not been incurred are reflected as refundable advances from state and local government grants in the accompanying statement of financial position.

Functional Allocation of Expenses

Expenses that can be directly identified with the program or supporting service to which they relate are charged accordingly. Other expenses by function have been allocated among program and supporting service classifications using bases determined by management to be reasonable.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

Subsequent Events

Management has reviewed subsequent events and transactions that occurred after the balance sheet date through the auditors' report date and date of issuance. The financial statements include all events or transactions, including estimates, required to be recognized in accordance with generally accepted accounting principles. Management has determined that there are no nonrecognized subsequent events that require additional disclosure.

Implementation of New Accounting Pronouncements

Effective December 15, 2009, the School adopted a new accounting standard for uncertainty in income taxes. The standard prescribes a minimum recognition threshold and measurement methodology that a tax position taken or expected to be taken in a tax return is required to meet before being recognized in the financial statements. It also provides guidance for derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. The cumulative effect of this change in accounting principle was immaterial.

The School is under regular audit by tax authorities. The School believes that it has appropriate support for the positions taken on its tax returns. Nonetheless, the amounts ultimately paid, if any, upon resolution of the issues raised by the taxing authorities may differ materially from the amounts filed. Management believes that its nonprofit status would be sustained upon examination.

EQUALITY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS June 30, 2010

- 3. PROPERTY AND EQUIPMENT:** Property and equipment consist of the following as of June 30, 2010:

		Estimated Useful Lives
Furniture and fixtures	\$ 46,675	7 years
Computers	145,098	5 years
Equipment	7,198	5 years
Software	66,800	3 years
	265,771	
Less: accumulated depreciation and amortization	(54,021)	
	\$ 211,750	

Depreciation and amortization expense for the year ended June 30, 2010 was \$54,021.

- 4. PENSION PLAN:** Effective July 1, 2009 the School adopted a 401(k) profit sharing plan (the "Plan") which covers most of the employees. The Plan is a defined contribution plan. Employees are eligible to enroll in the plan either the first day of the Plan year or the first day of the seventh month of the Plan year. Those employees who have completed at least 1 full year of service are also eligible for employer contribution. The Plan provides for the School to contribute up to 4% of an employee's salary. The School contribution does not become fully vested until after the third year of employment. As of June 30, 2010, pension expense for the School was \$20,161, which is included in payroll taxes and employee benefits in the accompanying statement of functional expenses.
- 5. RISK MANAGEMENT:** The School is exposed to various risks of loss related to torts; thefts of, damage to, and destruction of assets; injuries to employees; and natural disasters. The School maintains commercial insurance to protect itself from such risks and is self insured on others.
- The School entered into contractual relationships with certain governmental funding sources. The governmental agencies may request return of funds as a result of noncompliance by the School. The accompanying financial statements make no provision for the possible disallowance or refund.
- 6. AGREEMENT FOR SCHOOL FACILITY:** The School has entered into a verbal agreement (the "Agreement"), with the New York City Department of Education for dedicated and shared space at PS 160, a New York City public school located at 4140 Hutchinson River Parkway East, Bronx, New York. The New York City Department of Education is in the process of revising the written facility agreements and is expected to issue one for the School during the next fiscal year. The School will be responsible for any overtime-related costs for services provided beyond the regular opening hours. For the fiscal year ended June 30, 2010 the School did not incur overtime permit fees.

EQUALITY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS June 30, 2010

7. **CONCENTRATIONS:**
- A. Financial instruments that potentially subject the school to a concentration of credit risk include cash accounts at a major financial institution that exceeded the Federal Deposit Insurance Corporation (FDIC) limits by approximately \$76,000 as of June 30, 2010. The FDIC has temporarily increased the limit to \$250,000 through December 31, 2013.
 - B. The School received approximately 75% of its total revenue from per pupil funding from New York City Department of Education.
 - C. The School's grants and other receivables exclusively consist of three major grantors.

**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***

To the Board of Trustees
Equality Charter School

We have audited the financial statements of Equality Charter School (the "School") as of and for the period ended June 30, 2010, and have issued our report thereon dated October 25, 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 a 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*.

We noted certain matters that we reported to management of the School in a separate letter dated October 25, 2010

This report is intended solely for the information and use of the Board of Trustees, management, the New York State Education Department, the Board of Regents of the University of the State of New York and others within the entity and is not intended to be and should not be used by anyone other than these specified parties.

EAE LLP

New York, NY
October 25, 2010