

MANHATTAN CHARTER SCHOOL

(A Not-For-Profit Corporation)

FINANCIAL STATEMENTS

JUNE 30, 2009 AND 2008

MANHATTAN CHARTER SCHOOL
(A Not-For-Profit Corporation)
FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

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INDEPENDENT AUDITORS' REPORT

TO THE BOARD OF TRUSTEES

We have audited the accompanying statements of financial position of Manhattan Charter School (the "School") (a not-for-profit corporation) as of June 30, 2009 and 2008, 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. The prior year summarized comparative information has been derived from the School's 2008 financial statements and, in our report dated October 20, 2008, we expressed an unqualified opinion on those financial statements.

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 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 9, 2009 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 read in conjunction with this report in considering the results of our audit.


FRUCHTER ROSEN & COMPANY, P.C.
Certified Public Accountants

New York, New York
October 9, 2009

MANHATTAN CHARTER SCHOOL
(A Not-For-Profit Corporation)
STATEMENTS OF FINANCIAL POSITION
JUNE 30,

	2009	2008
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,222,659	\$ 778,552
Grants receivable	155,701	45,929
Prepaid expenses	9,895	2,968
Total current assets	1,388,255	827,449
Property and equipment, net of accumulated depreciation of \$95,746 and \$61,075, respectively	123,152	98,787
Restricted cash	70,235	70,000
TOTAL ASSETS	\$ 1,581,642	\$ 996,236
 LIABILITIES AND UNRESTRICTED NET ASSETS		
Current liabilities:		
Accounts payable and accrued expenses	\$ 152,924	\$ 49,959
Accrued payroll and payroll taxes	324,734	227,097
Refundable advances	43,493	33,248
Current portion of capital lease obligations	8,720	8,720
Total current liabilities	529,871	319,024
Other liabilities:		
Long term portion of capital lease obligations	1,453	10,139
Total liabilities	531,324	329,163
Unrestricted net assets	1,050,318	667,073
TOTAL LIABILITIES AND UNRESTRICTED NET ASSETS	\$ 1,581,642	\$ 996,236

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

MANHATTAN CHARTER SCHOOL
(A Not-For-Profit Corporation)
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30,

	2009	2008
Revenue and support:		
State and local per pupil operating revenue	\$ 2,437,895	\$ 1,713,735
Federal grants	189,215	133,724
State and city grants	46,033	88,828
Contributions and grants	24,040	5,200
Interest income	9,624	18,300
Miscellaneous income	6,656	
Total revenue and support	2,713,463	1,959,787
Expenses:		
Program services		
Regular education	1,773,755	1,453,761
Special education	138,617	49,225
Management and general	406,046	345,499
Fundraising	11,800	4,614
Total expenses	2,330,218	1,853,099
Changes in unrestricted net assets	383,245	106,688
Unrestricted net assets - beginning of year	667,073	662,176
Prior period adjustment	-	(101,791)
Unrestricted net assets - end of year	\$ 1,050,318	\$ 667,073

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

MANHATTAN CHARTER SCHOOL
(A Not-For-Profit Corporation)
STATEMENTS OF CASH FLOWS
JUNE 30,

	<u>2009</u>	<u>2008</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase in unrestricted net assets	\$ 383,245	\$ 106,688
Adjustments to reconcile increase in unrestricted net assets to net cash provided by operating activities:		
Depreciation and amortization	34,671	28,115
Changes in certain assets and liabilities:		
(Increase) decrease in grants receivables	(109,772)	72,307
(Increase) decrease in prepaid expenses	(6,927)	7,491
(Increase) in restricted cash	(235)	(70,000)
Increase in accounts payable and accrued expenses	102,965	11,993
Increase in accrued salaries	97,637	122,571
Increase (decrease) in refundable advance	10,245	(45,557)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>511,829</u>	<u>233,608</u>
CASH FLOWS FROM INVESTING ACTIVITY:		
Purchase of property and equipment	<u>(59,036)</u>	<u>(53,290)</u>
CASH FLOWS FROM FINANCING ACTIVITY:		
Payments on capital lease obligations	<u>(8,686)</u>	<u>(8,720)</u>
 NET INCREASE IN CASH AND CASH EQUIVALENTS	 444,107	 171,598
 CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	 <u>778,552</u>	 <u>606,954</u>
 CASH AND CASH EQUIVALENTS - END OF YEAR	 <u><u>\$ 1,222,659</u></u>	 <u><u>\$ 778,552</u></u>

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

MANHATTAN CHARTER SCHOOL
(A Not-For-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

NOTE 1 - PRINCIPAL BUSINESS ACTIVITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization

Manhattan Charter School (the “School”) is a New York State, not-for-profit educational corporation that operated as a charter school in the borough of Manhattan, New York City. On July 21, 2004, the Board of Regents of the University of the State of New York for and on behalf of the State Education Department granted the School a provisional charter valid for a term of five years from the effective date of July 21, 2005 and renewable upon expiration. The School’s mission is to prepare its students to achieve high academic levels in the four core subject areas, communicate effectively in verbal, mathematical and musical languages, and to apply critical thinking processes and ethical standards to learning, living and problem solving.

In fiscal year 2009 the School operated classes for approximately 196 students in kindergarten through grade four.

Food and Transportation Services

The New York City Department of Education provides free lunches and reduced-price lunches and transportation to a majority of the School’s students. Such costs are not included in these financial statements. The School covers the cost of lunches for children entitled to reduced – priced and free lunches. The School also receives reimbursement from parents who are charged full price for these lunches.

Tax Status

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) and 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 within the meaning of Section 509(a) and qualifies for deductible contributions as provided in section 170(b)(1)(A)(ii).

Basis of Presentation

Financial statement presentation follows the requirements of 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. The net assets classifications are described as follows:

Reclassifications

Certain 2008 accounts have been reclassified to conform to the 2009 financial statement presentation. The reclassifications have no effect on the 2008 total assets, liabilities, net assets and changes in net assets.

MANHATTAN CHARTER SCHOOL
(A Not-For-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

NOTE 1 - PRINCIPAL BUSINESS ACTIVITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation (continued)

Unrestricted

Unrestricted net assets of the School consists of cash and otherwise unrestricted amounts that are available for use in carrying out the objectives of the School and include those expendable resources, which have been designated for special use by the School or the Board of Trustees.

Temporarily Restricted

Temporarily restricted net assets of the School represent those amounts that have been limited by donor-imposed stipulations that either expire with the passage of time or can be fulfilled and removed by actions of the School. 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 and changes in net assets, as net assets released from restrictions.

Permanently Restricted

Permanently restricted net assets of the School result from contributions whose use has been permanently limited by donor-imposed restrictions. Such assets include contributions required to be invested in perpetuity, the income from which is available to support charitable purposes designated by the donors.

The School had no temporarily or permanently restricted net assets at June 30, 2009 and 2008.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the 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. Accordingly, actual results could differ from those estimates.

Cash and Cash Equivalents

For the purpose of the Statement of Cash Flows, the School considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Concentration of Credit Risk

The School maintains its cash in what it believes to be credit-worthy financial institutions. However, cash balances may exceed FDIC insured levels at various times during the year. The School has not experienced any losses in such accounts.

MANHATTAN CHARTER SCHOOL
(A Not-For-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

NOTE 1 - PRINCIPAL BUSINESS ACTIVITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Restricted Cash

Under the provisions of its charter, the School established a restrictive cash account to pay for legal and audit expenses that would be associated with a dissolution should it occur.

Property and Equipment

Purchased property and equipment are recorded at cost. Maintenance and repairs are expensed as incurred. Depreciation and amortization is provided on the straight line method over the estimated useful lives as follows:

Equipment	5 years
Furniture and Fixtures	7 years

Refundable Advances

The school records certain government operating revenue as refundable advances until related services are performed, at which time they are recognized as revenue.

Revenue and Support

Contributions are recognized when the donor makes a promise to give to the School that is, in substance, unconditional. Grants and other contributions of cash are reported as temporarily restricted support if they are received with donor stipulations. Restricted contributions and grants that are made to support the school's current year activities are recorded as unrestricted revenue. Contributions of assets other than cash are recorded at their estimated fair value.

Revenue from the state and local governments resulting from the School's charter status and based on the number of students enrolled is recorded when services are performed in accordance with the charter agreement. Federal and other state and local funds are recorded when expenditures are incurred and billable to the government agency.

Comparative Financial Information

The accompanying statements of activities and functional expenses are presented with summarized comparative information. Such prior year information is not presented by net asset class in the statement of activities or by functional category in the statement of functional expenses. Accordingly, such information should be read in conjunction with the School's 2008 financial statements from which the summarized information was derived.

MANHATTAN CHARTER SCHOOL
(A Not-For-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

NOTE 1 - PRINCIPAL BUSINESS ACTIVITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recent Accounting Pronouncements

In July 2006, the Financial Accounting Standards Board (the "FASB") issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* – an interpretation of FASB Statement No 109 ("FIN48"). FIN 48 prescribes a comprehensive model for recognizing, measuring, presenting and disclosing in the financial statements tax positions taken or expected to be taken on a tax return. If there are changes in net assets as a result of the application of FIN 48, these will be accounted for as an adjustment to the opening balance of net assets. Additional disclosures about the amounts of such liabilities will also be required. In 2008, the FASB delayed the effective date of FIN 48 for certain nonpublic enterprises to annual financial statements for fiscal years beginning after December 15, 2008. The School will be required to adopt FIN 48 in its June 30, 2010 financial statements. The adoption of FIN 48 is not expected to have a material impact on the School's financial position, results of operations or cash flows.

NOTE 2 - GRANTS RECEIVABLE

Grants receivable consists of federal, state and city entitlements and grants. The School expects to collect these receivables within one year.

NOTE 3 - PROPERTY AND EQUIPMENT

	<u>2009</u>	<u>2008</u>
Furniture and Fixtures	\$62,734	\$ 51,253
Equipment	112,813	65,258
Equipment under capital leases	<u>43,351</u>	<u>43,351</u>
	218,898	159,862
Less: Accumulated depreciation	<u>(95,746)</u>	<u>(61,075)</u>
Total Property and equipment, net	<u>\$ 123,152</u>	<u>\$ 98,787</u>

Depreciation and amortization expense were \$34,671 and \$28,115 for the years ended June 30, 2009 and 2008, respectively.

MANHATTAN CHARTER SCHOOL
(A Not-For-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

NOTE 4 - SCHOOL FACILITY

The School has entered into a "Facility Shared Use Agreement" with the New York City Department of Education for dedicated and shared space at a New York City public school located at 100 Attorney Street, New York, New York, 10022. Pursuant to the terms of the agreement, the School shall pay \$1 per annum for the use of the shared facility during the regular opening hours. The School shall be responsible for any overtime related costs for services provided beyond the regular opening hours.

NOTE 5 - REVENUE CONCENTRATION

The School receives a substantial portion of its support and revenue from the New York City Department of Education. If the charter school laws were modified, reducing or eliminating these revenues, the School's finances could be materially adversely affected.

NOTE 6 - CONTINGENCY

Certain grants and contracts may be subject to audit by the funding sources. Such audits might result in disallowances of costs submitted for reimbursement. Management is of the opinion that such cost disallowances, if, any will not have a material effect on the accompanying financial statements. Accordingly, no amounts have been provided in the accompanying financial statements for such potential claims.

NOTE 7 - CAPITAL LEASE OBLIGATIONS

During the year ended June 30, 2006, the School acquired musical instruments and office equipment under two capital leases. The assets and liabilities under capital leases are recorded the fair value of the assets. The assets are amortized over the lower of their related lease terms or their estimated productive lives. Amortization of assets under capital leases is included in depreciation and amortization expense for 2009 and 2008.

Minimum future lease payments under capital leases as of June 30, 2009 are as follows:

2010	\$ 8,720
2011	<u>1,453</u>
Total minimum lease payments	<u>\$10,173</u>

MANHATTAN CHARTER SCHOOL
(A Not-For-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

NOTE 8 - FUNCTIONAL ALLOCATION OF EXPENSE

Directly identifiable expenses are charged to programs and supporting services. Expenses related to more than one function are charged to programs and supporting services on the basis of periodic time and expense studies. Management and general expense includes those expenses that are not directly identifiable with any other specific function, but provide for the overall support and direction of the School.

NOTE 9 - PENSION PLAN

The School maintains a pension plan qualified under the Internal Revenue Code 401(k) for the benefit its eligible employees. Under the plan the School provided matching contributions of 4% to the plan. In September 2008, the School converted from a 401(k) plan to a 403(b) providing matching contributions of 4% to the plan. The amount of matching contributions to these plans were \$30,853 and \$7,533 for the years ended June 30, 2009 and 2008, respectively.

NOTE 10 - PRIOR PERIOD ADJUSTMENTS

During the fiscal year ended June 30, 2008, the School determined that revenues recorded under federal, state and city cost-reimbursement grants for the year ended June 30, 2007 were overstated by \$65,731. In addition, various expenses amounting to \$36,060 that were related to June 30, 2007 and prior were not recognized in the year ended June 30, 2007. Accordingly, an adjustment of \$101,791 was made to net assets in the year ended June 30, 2008.

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INDEPENDENT AUDITORS' REPORT
ON ADDITIONAL INFORMATION

TO THE BOARD OF TRUSTEES
MANHATTAN CHARTER SCHOOL

Our report on our audits of the basic financial statements of Manhattan Charter School (a not-for-profit corporation) for June 30, 2009 and 2008 appears on page 1. We conducted our audits in accordance with auditing standards generally accepted in the United States of America for the purpose of forming an opinion on the basic financial statements taken as a whole. The 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 audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements as a whole.


FRUCHTER ROSEN & COMPANY, P.C.
Certified Public Accountants

New York, New York
October 9, 2009

MANHATTAN CHARTER SCHOOL
(A Not-For-Profit Corporation)
SCHEDULE OF FUNCTIONAL EXPENSES
(With comparative totals for the year ended June 30, 2008)

	For the year ended June 30, 2009						For the year ended June 30, 2008
	Program Services			Supporting Services			
	Regular Education	Special Education	Total Program Service	Management and General	Fundraising	Total	
Salaries and wages	\$ 1,193,601	\$ 27,919	\$ 1,221,520	\$ 230,325	\$ 9,200	\$ 1,461,045	\$ 1,086,254
Employee benefits and payroll taxes	207,190	4,846	212,036	39,981	1,597	253,614	161,990
Professional and accounting services	30,557	60,506	91,063	93,704	-	184,767	171,419
Professional development	1,146	141	1,287	10,222	-	11,509	96,681
Consultants	78,115	10,136	88,251	3,898	-	92,149	36,839
Leased equipment	1,170	172	1,342	219	-	1,561	962
Supplies and materials	28,406	3,651	32,057	5,943	-	38,000	30,906
Curriculum and classroom	122,931	15,194	138,125	-	-	138,125	102,957
Travel and conferences	7,036	922	7,958	421	-	8,379	6,058
Insurance	20,247	2,970	23,217	3,779	-	26,996	25,444
Postage and printing	2,299	337	2,636	430	-	3,066	4,531
Technology and communications	14,406	2,113	16,519	2,688	-	19,207	32,992
Meals	15,841	2,176	18,017	1,767	-	19,784	16,055
Student and staff recruiting	16,572	2,513	19,085	4,948	1,003	25,036	2,711
Depreciation	26,003	3,814	29,817	4,854	-	34,671	28,115
Facility	8,199	1,203	9,402	1,530	-	10,932	43,785
Miscellaneous	36	4	40	1,337	-	1,377	5,400
Total	\$ 1,773,755	\$ 138,617	\$ 1,912,372	\$ 406,046	\$ 11,800	\$ 2,330,218	\$ 1,853,099

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

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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 OF
MANHATTAN CHARTER SCHOOL

We have audited the financial statements of Manhattan Charter School (“the School”) as of and for the year ended June 30, 2009 and have issued our report thereon dated October 9, 2009. 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 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 School’s ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the School’s financial statements that is more than inconsequential will not be prevented or detected by the School’s internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the School’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 weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

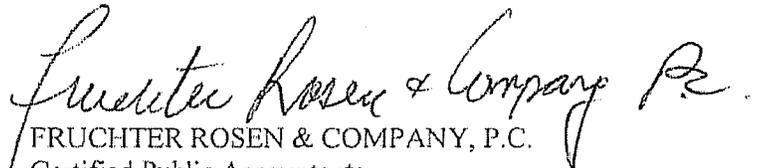
TO THE BOARD OF TRUSTEES
MANHATTAN CHARTER SCHOOL

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 were reported to the management of the School in a separate letter dated October 9, 2009.

This report is intended solely for the information and use of management, the audit committee, Board of Trustees, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.


FRUCHTER ROSEN & COMPANY, P.C.
Certified Public Accountants

New York, New York
October 9, 2009