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THE ETHICAL COMMUNITY CHARTER SCHOOL

**Audited Financial Statements In Accordance
With Government Auditing Standards**

June 30, 2012

THE ETHICAL COMMUNITY CHARTER SCHOOL

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INDEPENDENT AUDITORS' REPORT

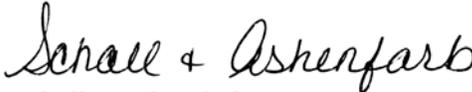
To the Board of Trustees of
The Ethical Community Charter School

We have audited the accompanying statement of financial position of The Ethical Community Charter School (the "School") as of June 30, 2012 and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the School's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior-year summarized comparative information has been derived from the School's June 30, 2011 financial statements and, in our report dated October 24, 2011 we expressed an unqualified opinion on those financial statements.

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 presents fairly, in all material respects, the financial position of the School as of June 30, 2012, and the changes in its net assets and its cash flows for the year 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 24, 2012 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 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.


Schall & Ashenfarb
Certified Public Accountants, LLC

October 24, 2012

THE ETHICAL COMMUNITY CHARTER SCHOOL
STATEMENT OF FINANCIAL POSITION
AT JUNE 30, 2012
(With comparative totals for June 30, 2011)

	<u>6/30/12</u>	<u>6/30/11</u>
Assets		
Cash and cash equivalents (Notes 2b and 2c)	\$1,250,872	\$871,265
Restricted cash (Note 3)	70,248	25,076
Contributions receivable	0	196,482
Grant receivable - New York City (Notes 2f and 4)	0	28,235
Government grants receivable (Notes 2f and 8)	34,414	24,436
Prepaid expenses	5,020	19,483
Fixed assets (net of accumulated depreciation - Notes 2e and 5)	<u>224,916</u>	<u>236,640</u>
 Total assets	 <u><u>\$1,585,470</u></u>	 <u><u>\$1,401,617</u></u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$219,749	\$211,068
Advance payable - New York City (Note 4)	5,275	0
Total liabilities	<u>225,024</u>	<u>211,068</u>
Net assets: (Note 2a)		
Unrestricted:		
Undesignated	345,415	994,067
Board designated (building reserve) (Note 2a)	1,002,241	0
Total unrestricted	<u>1,347,656</u>	<u>994,067</u>
Temporarily restricted (Note 6)	<u>12,790</u>	<u>196,482</u>
Total net assets	<u>1,360,446</u>	<u>1,190,549</u>
 Total liabilities and net assets	 <u><u>\$1,585,470</u></u>	 <u><u>\$1,401,617</u></u>

The attached notes and auditors' report are an integral part of these financial statements.

THE ETHICAL COMMUNITY CHARTER SCHOOL
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2012
(With comparative totals for the year ended June 30, 2011)

	Unrestricted	Temporarily Restricted	6/30/12	6/30/11
Public support and revenue:				
Public school district: (Notes 2f and 4)				
Revenue - resident student enrollment	\$2,733,198	\$0	\$2,733,198	\$2,141,324
Revenue - students with special education services	98,528	0	98,528	89,703
Subtotal public school district	2,831,726	0	2,831,726	2,231,027
Government grants (Note 2f)	116,016	0	116,016	287,852
Contributions (Note 2f)	7,084	12,790	19,874	1,750
Student fees	2,770	0	2,770	1,615
Interest income	2,609	0	2,609	357
In-kind contributions (Note 2g)	267,624	0	267,624	267,624
Net assets released from restrictions	196,482	(196,482)	0	0
Total public support and revenue	<u>3,424,311</u>	<u>(183,692)</u>	<u>3,240,619</u>	<u>2,790,225</u>
Expenses:				
Program expenses	2,723,864	0	2,723,864	2,231,977
Supporting services:				
Management and general	338,724	0	338,724	407,139
Fundraising	8,134	0	8,134	6,045
Total supporting services	<u>346,858</u>	<u>0</u>	<u>346,858</u>	<u>413,184</u>
Total expenses	<u>3,070,722</u>	<u>0</u>	<u>3,070,722</u>	<u>2,645,161</u>
Change in net assets	353,589	(183,692)	169,897	145,064
Net assets - beginning	<u>994,067</u>	<u>196,482</u>	<u>1,190,549</u>	<u>1,045,485</u>
Net assets - ending	<u><u>\$1,347,656</u></u>	<u><u>\$12,790</u></u>	<u><u>\$1,360,446</u></u>	<u><u>\$1,190,549</u></u>

The attached notes and auditors' report are an integral part of these financial statements.

THE ETHICAL COMMUNITY CHARTER SCHOOL
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2012
(With comparative totals for the year ended June 30, 2011)

	Supporting Services			Total Expenses 6/30/12	Total Expenses 6/30/11
	Program Services	Management and General	Fundraising		
Salaries	\$1,638,597	\$207,943	\$6,922	\$214,865	\$1,853,462
Substitute teachers	55,801	0	0	0	55,801
Payroll taxes and employee benefits	345,651	27,079	854	27,933	373,584
Total personnel costs	2,040,049	235,022	7,776	242,798	2,282,847
Occupancy (in-kind) (Note 2g)	214,099	53,525	0	53,525	267,624
Professional fees	111,008	30,726	211	30,937	141,945
Classroom materials and supplies	105,787	263	22	285	106,072
After school programs	62,775	0	0	0	62,775
Recruitment	24,343	2,138	32	2,170	26,513
Staff development	67,533	0	0	0	67,533
Conference and subscription	6,495	481	7	488	6,983
Office expenses	27,934	4,127	51	4,178	32,112
Depreciation	41,495	10,374	0	10,374	51,869
Insurance	16,691	1,745	29	1,774	18,465
Telephone	653	41	1	42	695
Printing and postage	3,395	245	4	249	3,644
Miscellaneous	1,607	37	1	38	1,645
Total other than personnel costs	683,815	103,702	358	104,060	787,875
Total expenses	\$2,723,864	\$338,724	\$8,134	\$346,858	\$3,070,722

The attached notes and auditors' report are an integral part of these financial statements.

THE ETHICAL COMMUNITY CHARTER SCHOOL
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2012
(With comparative totals for the year ended June 30, 2011)

	<u>6/30/12</u>	<u>6/30/11</u>
Net cash flows from operating activities:		
Change in net assets	\$169,897	\$145,064
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	51,869	43,530
(Increase)/decrease in assets:		
Restricted cash	(45,172)	(76)
Contributions receivable	196,482	301,468
Grant receivable - New York City	28,235	(26,957)
Government grants receivable	(9,978)	(24,436)
Prepaid expenses	14,463	44,110
Increase/(decrease) in liabilities:		
Accounts payable and accrued expenses	8,681	26,710
Advance payable - New York City	5,275	0
Total adjustments	<u>249,855</u>	<u>364,349</u>
Net cash provided by operating activities	<u>419,752</u>	<u>509,413</u>
Net cash flows from investment activities:		
Purchase of property and equipment	<u>(40,145)</u>	<u>(60,978)</u>
Net cash used for investing activities	<u>(40,145)</u>	<u>(60,978)</u>
Net increase in cash and cash equivalents	379,607	448,435
Cash and cash equivalents, beginning	<u>871,265</u>	<u>422,830</u>
Cash and cash equivalents, ending	<u><u>\$1,250,872</u></u>	<u><u>\$871,265</u></u>
Supplemental disclosures:		
Interest paid - \$0		
Taxes paid - \$0		

The attached notes and auditors' report are an integral part of these financial statements.

THE ETHICAL COMMUNITY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

Note 1 - Organization and Nature of Activities

The Ethical Community Charter School (the "School"), located in Brooklyn, New York, is a not-for-profit education corporation chartered by the Regents of the University of the State of New York. The School provides a full range of educational services appropriate for kindergarten, first, second and third grade levels. The School completed the 2011-2012 fiscal year, its third year of operations, with an average enrollment of approximately 200 students. The School is a publicly funded, privately managed school, which is independent of the New York City Department of Education ("NYCDOE").

On January 15, 2008, the School was granted a provisional charter by the University of the State of New York, Education Department for a term up through and including January 14, 2013. Such provisional charter may be extended upon application for a term of up to five years in accordance with the provisions of Article 56 of the Education Law.

The School's mission is a safe and caring community where ethics, service, and social justice are the principles that inform every aspect of school life; where teachers lead and collaborate with students in a culture of rigorous academics and mutual respect; where analytical thinking and creativity are prized over learning by repetition; where children become individuals of integrity, insight, autonomy – and socially productive citizens, workers, leaders.

The School is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes has been reflected in the accompanying financial statements. They have not been designated as a private foundation.

Note 2 - Significant Accounting Policies

a. Basis of Presentation

The accompanying financial statements have been prepared using the accrual basis of accounting.

The School's net assets are classified based upon the existence or absence of donor-imposed restrictions as follows:

- *Unrestricted* – represent those resources for which there are no restrictions by donors as to their use. The School has separately identified certain funds as designated for a building reserve.
- *Temporarily restricted* – represent those resources, the uses of which have been restricted by donors to specific purposes or the passage of time. The release from restrictions results from the satisfaction of the restricted purposes specified by the donor.

- *Permanently restricted* – accounts for activity restricted by donors that must remain intact in perpetuity. The School did not have any permanently restricted net assets at June 30, 2012.

b. Cash and Cash Equivalents

Checking and money market accounts with local banks and highly liquid debt instruments purchased with a maturity of three months or less are considered to be cash equivalents for purposes of the accompanying statement of cash flows.

c. Significant Concentrations

Financial instruments which potentially subject the School to concentration of credit risk consist of cash and money market accounts. The School places its temporary cash and money market accounts with financial institutions that they deem to be credit-worthy, which at times, may exceed federally insured limits. While at year end the School had material uninsured balances, management feels they have little risk and has not experienced any losses.

The School is dependent upon grants from NYCDOE to carry out its operations. For the year ended June 30, 2012, approximately 87% of the School's total support and revenue, excluding in-kind contributions, was realized from NYCDOE.

d. Allowance for Uncollectible Receivables

Management has not established a reserve for uncollectible receivables because they deem all receivables to be fully collected based on specific identification and analysis. Write-offs will be recorded as expense in the year they are deemed to be uncollectible.

e. Fixed Assets and Capitalization Policies

Fixed assets are stated at cost or at the fair market value at the date of gift, if donated. The School capitalizes fixed assets in excess of pre-defined amounts and have a useful life of more than one year. Depreciation was computed using the straight-line method over the estimated useful lives of the respective assets, as follows:

Office equipment – 5 years

Computer equipment – 3 years

Furniture and fixtures – 7 years

Leasehold improvements – *Life of lease not to exceed 10 years*

f. Revenue Recognition

Contributions are recorded as revenue at the earlier of receipt of cash or an unconditional promise, and are considered available for unrestricted use, unless specifically restricted by the donor, in which case they are recorded as temporarily restricted.

Program revenues are recognized based on rates established by the School's funding sources and the amount realizable on the accrual basis in the period during which services are provided.

The terms of each government grant are reviewed to determine if they contain traits more closely associated with contributions or exchange transactions. Management has determined that all existing government grants are exchange transactions because they contain traits more similar to contracts for service. Grants earned in excess of cash received are recorded as grants receivable whereby cash received in excess of grants earned are recorded as refundable advances.

g. Contributed Facilities

The School's operations are located in a facility provided by NYCDOE, at a charge of \$1.00 per annum. As such, the School has recorded the estimated fair market value of this space as revenue and expense in the accompanying statements of activities and functional expenses.

h. Donated Services

Donated services are required to be recognized in circumstances where those services create or enhance non-financial assets or require specialized skills, are provided by individuals possessing those skills and would typically need to be purchased if not provided in-kind.

i. Functional Allocation of Expenses

The costs of providing various programs and other activities have been summarized on a functional basis in the accompanying statements of activities and functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

j. Use of Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

k. Summarized Comparative Information

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the School's financial statements for the period from inception to June 30, 2011, from which the summarized information was derived.

l. Accounting for Uncertainty in Income Taxes

The School has adopted the provisions of FASB ASC 740, *Income Taxes*, which applies to positions taken or expected to be taken in a tax return. Organizations are required to recognize the effects of tax positions if they are more likely than not of being sustained. The School does not believe its financial statements include any uncertain tax positions.

m. Subsequent Events

Management has evaluated for potential recognition and disclosure events subsequent to the date of the statement of financial position through October 24, 2012, the date the financial statements were available to be issued. No events have occurred subsequent to the statement of financial position date through our evaluation date that would require adjustment to or disclosure in the financial statements.

Note 3 - Restricted Cash

An escrow account has been established to meet the requirement of NYCDOE. The purpose of this account is to ensure sufficient funds are available for an orderly dissolution or transition process in the event of termination of the charter or school closure.

Note 4 - Advance Payable – New York City

Advances received that exceed the amount that can be recognized as revenue are recorded as refundable advances. As of June 30, 2012, refundable advances consist of the following:

<u>Fiscal year 2010 - 2011</u>		
Amount due from to New York City	\$28,235	
Payments received	<u>(28,235)</u>	
Total fiscal year 2010 – 2011		\$0
 <u>Fiscal year 2011 - 2012</u>		
Funding based on allowable FTE's	2,831,726	
Advances received	<u>(2,837,001)</u>	
Amount due to New York City		<u>(\$5,275)</u>
Total advances payable		<u>(\$5,275)</u>

Note 5 - Fixed Assets

At June 30, 2012, fixed assets consisted of the following:

Computer and equipment	\$53,031
Furniture	167,030
Leasehold improvements	<u>119,818</u>
Total	339,879
Less: accumulated depreciation	<u>(114,963)</u>
Total fixed assets, net	<u>\$224,916</u>

Note 6- Temporarily Restricted Net Assets

Net assets of \$12,790 were restricted for use in the library. During the year ended June 30, 2012, time restrictions totaling \$196,482 elapsed.

Note 7 - Retirement Plan

Effective September 1, 2009, the School sponsors a 401(k) profit sharing plan. Employees that have completed at least 1,000 hours and are employed on the last day of the plan year are eligible to participate. Eligible employees may designate a percentage of their salaries, subject to regulatory limits, to be contributed to the plan on a pre-tax basis. The School makes a contribution equal to 3% of pay to all participants who have satisfied the eligibility provisions of the plan. Employees enter the plan on January 1st or July 1st following attainment of age 21 and one year of service (1000 hours). For the year ended June 30, 2012, the employer share of the plan expense was approximately \$43,000.

Note 8 - Commitments and Contingencies

Government contracts are subject to audit by the grantor. Management does not believe the results of any such audits will result in disallowed costs that would be material to the financial statements and has not established any reserve for that possibility. Any disallowances as a result of those audits will be expensed in the year notified.

**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
The Ethical Community Charter School

We have audited the financial statements of The Ethical Community Charter School (the "School") as of June 30, 2012, and have issued our report thereon dated October 24, 2012. 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

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

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

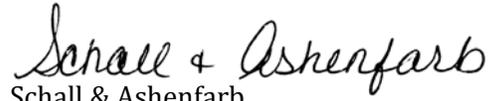
Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not 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 24, 2012.

This report is intended solely for the information and use of management, others within the School, and is not intended to be and should not be used by anyone other than these specified parties.


Schall & Ashenfarb
Certified Public Accountants, LLC

October 24, 2012

**THE ETHICAL COMMUNITY CHARTER SCHOOL
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2012**

Current Year:

None

Prior Year:

None