

MANHATTAN CHARTER SCHOOL

FINANCIAL STATEMENTS

JUNE 30, 2010 AND 2009

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FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

CONTENTS

	<u>PAGE</u>
INDEPENDENT AUDITORS' REPORT	1
FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION:	
Statements of financial position	2
Statements of activities	3
Statements of cash flows	4
Notes to the financial statements	5 - 11
Independent auditors' report on additional information	12
Schedules of functional expenses	13
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	14 - 15

FRUCHTER ROSEN & COMPANY, P.C.
CERTIFIED PUBLIC ACCOUNTANTS
156 WEST 56TH STREET
NEW YORK, NEW YORK 10019

TEL: (212) 957-3600
FAX: (212) 957-3696

INDEPENDENT AUDITORS' REPORT

TO THE BOARD OF TRUSTEES
MANHATTAN CHARTER SCHOOL

We have audited the accompanying statements of financial position of Manhattan Charter School (the "School") (a not-for-profit corporation) as of June 30, 2010 and 2009, 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 2009 financial statements and, in our report dated October 9, 2009 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, 2010 and 2009, 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 21, 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 read in conjunction with this report in considering the results of our audits.



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

New York, New York
October 21, 2010

MANHATTAN CHARTER SCHOOL
STATEMENTS OF FINANCIAL POSITION
JUNE 30,

	2010	2009
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,872,971	\$ 1,222,659
Grants and contracts receivable	148,527	155,701
Prepaid expenses	20,408	9,895
Total current assets	2,041,906	1,388,255
Property and equipment, net of accumulated depreciation of \$144,353 and \$95,746, respectively	145,099	123,152
Restricted cash	70,087	70,235
TOTAL ASSETS	\$ 2,257,092	\$ 1,581,642
 LIABILITIES AND UNRESTRICTED NET ASSETS		
Current liabilities:		
Accounts payable and accrued expenses	70,325	\$ 152,924
Accrued payroll and payroll taxes	444,804	324,734
Refundable advances	-	43,493
Current portion of capital lease obligations	1,453	8,720
Total current liabilities	516,582	529,871
Other liabilities:		
Long term portion of capital lease obligations	-	1,453
Total liabilities	516,582	531,324
Total Unrestricted Net Assets	1,740,510	1,050,318
TOTAL LIABILITIES AND UNRESTRICTED NET ASSETS	\$ 2,257,092	\$ 1,581,642

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

MANHATTAN CHARTER SCHOOL
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30,

	2010	2009
Revenue and support:		
State and local per pupil operating revenue	\$ 3,142,773	\$ 2,437,895
Federal grants	253,336	189,215
State and city grants	48,111	46,033
Contributions and grants	73,221	24,040
Donated goods	79,132	-
Interest income	5,765	9,624
Miscellaneous income	-	6,656
Total revenue and support	3,602,338	2,713,463
Expenses:		
Program services:		
Regular education	2,184,003	1,773,755
Special education	243,533	138,617
Total program services	2,427,536	1,912,372
Supporting services:		
Management and general	473,230	406,046
Fundraising	11,380	11,800
Total expenses	2,912,146	2,330,218
Changes in unrestricted net assets	690,192	383,245
Unrestricted net assets - beginning of year	1,050,318	667,073
Unrestricted net assets - end of year	\$ 1,740,510	\$ 1,050,318

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

MANHATTAN CHARTER SCHOOL
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30,

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase in unrestricted net assets	\$ 690,192	\$ 383,245
Adjustments to reconcile increase in unrestricted net assets to net cash provided by operating activities:		
Depreciation	50,759	34,671
Loss on disposal of fixed assets	1,865	-
Changes in certain assets and liabilities:		
(Increase) decrease in grants and contracts receivable	7,174	(109,772)
(Increase) in prepaid expenses	(10,513)	(6,927)
Increase (decrease) in accounts payable and accrued expenses	(82,599)	102,965
Increase in accrued payroll and payroll taxes	120,070	97,637
Increase (decrease) in refundable advances	(43,493)	10,245
NET CASH PROVIDED BY OPERATING ACTIVITIES	733,455	512,064
CASH FLOWS FROM INVESTING ACTIVITIES:		
(Increase) decrease in restricted cash	148	(235)
Purchase of property and equipment	(74,571)	(59,036)
NET CASH (USED IN) INVESTING ACTIVITIES	(74,423)	(59,271)
CASH FLOWS FROM FINANCING ACTIVITY:		
Payments on capital lease obligations	(8,720)	(8,686)
NET INCREASE IN CASH AND CASH EQUIVALENTS	650,312	444,107
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	1,222,659	778,552
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 1,872,971	\$ 1,222,659

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

MANHATTAN CHARTER SCHOOL
FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

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. On May 17, 2010 the Board of Regents approved and issued the renewal to the initial charter for a period of five years, effective July 1, 2010 to June 30, 2015. 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 2010, the School operated classes for approximately 234 students in kindergarten through grade five.

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) (l) (A) (ii).

Basis of Presentation

Financial statement presentation follows the requirements of the Financial Accounting Standards Board ("FASB") in its Accounting Standards Codification ("ASC") 958-205. Under ASC 958-205, 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:

MANHATTAN CHARTER SCHOOL
FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

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, 2010 and 2009.

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 at the date of donation.

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 uncured and billable to the government agency.

MANHATTAN CHARTER SCHOOL
FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

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

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

Financial instruments which potentially subject the School to concentrations of credit risk are cash and cash equivalents. The School places its cash and cash equivalents on deposit in what it believes to be highly credited financial institutions. Cash balances may exceed the FDIC insured levels of \$250,000 per institution at various times during the year. The School believes that there is little risk in any losses and has not experienced any losses in such accounts.

Restricted Cash

Under the provisions of its charter, the School established an escrow 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 is provided on the straight line method over the estimated useful lives as follows:

Furniture and Fixtures	7 years
Computers and Equipment	5 years
Software	5 years
Equipment under Capital leases	5 years

MANHATTAN CHARTER SCHOOL
FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

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

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.

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 2009 financial statements from which the summarized information was derived.

Recent Accounting Pronouncements

In June 2009, the FASB issued FASB Accounting Standards Codification ("ASC") 105, *Generally Accepted Accounting Principles ("GAAP")*, which establishes the FASB Accounting Standards Codification as the sole source of authoritative generally accepted accounting principles. Pursuant to the provisions of FASB ASC 105, the organization has updated references to GAAP in its financial statements issued for the year ended June 30, 2010. The adoption of FASB ASC 105 did not impact the School's financial position or results of operations.

The School adopted the provisions of ASC 740-10, *Income Taxes*, as of July 1, 2009. This standard clarifies the accounting for uncertainty in income taxes recognized in an organization's financial statements and prescribes a recognition threshold and measurement standard for the financial statement recognition and measurement of income tax positions taken or expected to be taken in a tax return. The School has reviewed its tax position for open tax years and has concluded that the adoption of this standard did not have an impact on the financial statements of the School.

NOTE 2 - GRANTS AND CONTRACTS RECEIVABLE

Grants and contracts receivable consist of federal, state and city entitlements and a federal grant. The School expects to collect these receivables within one year.

MANHATTAN CHARTER SCHOOL
FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

NOTE 3 - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following as of June 30,

	<u>2010</u>	<u>2009</u>
Furniture and Fixtures	\$ 66,693	\$ 62,734
Computers and Equipment	121,203	107,215
Software	2,690	-
Equipment under Capital Leases	<u>99,166</u>	<u>48,949</u>
Sub-total	289,452	218,898
Less: Accumulated depreciation	<u>144,353</u>	<u>95,746</u>
Total	<u>\$ 145,099</u>	<u>\$ 123,152</u>

The School disposed of assets resulting in a loss on disposal of \$1,865.

Depreciation expense was \$50,759 and \$34,671 for the years ended June 30, 2010 and 2009, respectively.

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.

MANHATTAN CHARTER SCHOOL
FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

NOTE 6 - DONATED GOODS

Donated goods are recognized as contributions and measured at fair value when originally received in accordance with ASC 958-605, *Gifts in Kind*. The School received musical instruments, electronics and school supplies from the Lower Manhattan Development Corporation's Community Enhancement Program whereby they awarded grants to support a variety of community improvements programs and services in the neighborhoods throughout lower Manhattan. For the years ended June 30, 2010, and 2009 the value of the goods donated were \$79,132 and \$0, respectively.

NOTE 7 - 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 8 - 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 2010 and 2009.

Minimum future lease payments under capital leases as of June 30, 2010 are as follows:

For the year ended June 30, 2011	\$ 1,453
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MANHATTAN CHARTER SCHOOL
FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

NOTE 9 - 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 10 - 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 charged to operations for fees and matching contributions to these plans were \$14,109 and \$28,162 for the years ended June 30, 2010 and 2009, respectively.

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156 WEST 56TH STREET
NEW YORK, NEW YORK 10019

TEL: (212) 957-3600
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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, 2010 and 2009 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 21, 2010

MANHATTAN CHARTER SCHOOL
 SCHEDULE OF FUNCTIONAL EXPENSES
 FOR THE YEARS ENDED JUNE 30,

2010

	Program Services			Supporting Services			Total	2009
	Regular Education	Special Education	Total Program Service	Management and General	Fundraising	Total		
Salaries and wages	\$ 1,475,910	\$ 166,729	\$ 1,642,639	\$ 292,496	\$ 9,476	\$ 1,944,611	\$ 1,461,045	
Employee benefits and payroll taxes	250,003	28,242	278,245	49,544	1,605	329,394	253,614	
Professional and accounting services	23,928	2,444	26,372	94,001	-	120,373	184,767	
Professional development	72,541	7,175	79,716	5,042	-	84,758	63,241	
Consultants	32,084	3,609	35,693	4,412	-	40,105	40,417	
Leased equipment	2,873	323	3,196	395	-	3,591	1,561	
Supplies and materials	31,091	3,163	34,254	812	81	35,147	38,000	
Curriculum and classroom	67,721	6,698	74,419	-	-	74,419	138,125	
Donated goods	63,305	7,122	70,427	8,705	-	79,132	-	
Travel and conferences	11,144	1,109	12,253	73	-	12,326	8,379	
Insurance	22,910	2,578	25,488	3,150	-	28,638	26,996	
Postage and printing	1,152	130	1,282	144	14	1,440	3,041	
Technology and communications	12,563	1,413	13,976	1,727	-	15,703	19,207	
Dues and subscriptions	1,859	209	2,068	255	-	2,323	40	
Meals	2,038	202	2,240	-	-	2,240	19,784	
Student and staff recruiting	52,687	5,615	58,302	3,885	204	62,391	25,061	
Depreciation	40,607	4,568	45,175	5,584	-	50,759	34,671	
Facility	17,615	1,982	19,597	2,422	-	22,019	10,932	
Donations	1,972	222	2,194	271	-	2,465	-	
Miscellaneous	-	-	-	312	-	312	1,337	
Total	\$ 2,184,003	\$ 243,533	\$ 2,427,536	\$ 473,230	\$ 11,380	\$ 2,912,146	\$ 2,330,218	

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

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CERTIFIED PUBLIC ACCOUNTANTS
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NEW YORK, NEW YORK 10019

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FAX: (212) 957-3696

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 years ended June 30, 2010 and 2009 and have issued our report thereon dated October 21, 2010. 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.

Internal Control over Financial Reporting

In planning and performing our audits, 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 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 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.

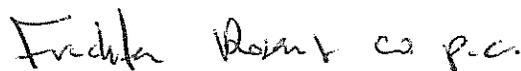
TO THE BOARD OF TRUSTEES
MANHATTAN CHARTER SCHOOL

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 21, 2010.

This report is intended solely for the information and use of management, Board of Trustees, federal, state and local awarding agencies, The Department of Education of the City of New York, The State Education Department of the State University of New York, and others within the School 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 21, 2010