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THE ETHICAL COMMUNITY CHARTER SCHOOL

Audited Financial Statements

June 30, 2010

THE ETHICAL COMMUNITY CHARTER SCHOOL

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INDEPENDENT AUDITORS' REPORT

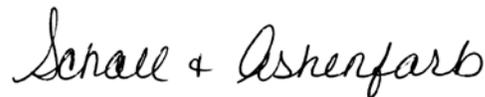
To the Board of Trustees of
The Ethical Community Charter School

We have audited the accompanying statement of financial position of The Ethical Community Charter School (the "School") as of June 30, 2010, and the related statements of activities, functional expenses, and cash flows from 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 misstatements. 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, 2010, and the changes in its net assets and its cash flows for the period from inception to 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 19, 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 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 19, 2010

THE ETHICAL COMMUNITY CHARTER SCHOOL
STATEMENT OF FINANCIAL POSITION
AT JUNE 30, 2010

Assets

Cash and cash equivalents (Notes 2d and 2e)	\$447,830
Contributions receivable (Notes 2b and 3)	497,950
Government grants receivable (Notes 2c and 4)	1,278
Prepaid expenses	63,593
Fixed assets (net of accumulated depreciation - Notes 2h and 5)	<u>219,192</u>
 Total assets	 <u><u>\$1,229,843</u></u>

Liabilities and Net Assets

Liabilities:	
Accounts payable and accrued expenses	<u>\$184,358</u>
Total liabilities	<u>184,358</u>
 Net assets:(Note 2a)	
Unrestricted	547,535
Temporarily restricted (Note 6)	<u>497,950</u>
Total net assets	<u>1,045,485</u>
 Total liabilities and net assets	 <u><u>\$1,229,843</u></u>

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

**THE ETHICAL COMMUNITY CHARTER SCHOOL
STATEMENT OF ACTIVITIES
FROM INCEPTION THROUGH JUNE 30, 2010**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Public support and revenue:			
Public school district: (Notes 2c and 4)			
Revenue - resident student enrollment	\$1,456,951		\$1,456,951
Revenue - students with special education services	76,196		76,196
Government grants (Note 2f)	611,312		611,312
Contributions (Notes 2b and 3)	418,507	\$497,950	916,457
Student Fees	1,930		1,930
In-kind contributions (Note 2i)	267,624		267,624
Net assets released from restrictions			0
Total public support and revenue	<u>2,832,520</u>	<u>497,950</u>	<u>3,330,470</u>
Expenses:			
Program expenses	<u>1,594,790</u>		<u>1,594,790</u>
Supporting services:			
Management and general	676,137		676,137
Fundraising	14,058		14,058
Total supporting services	<u>690,195</u>	<u>0</u>	<u>690,195</u>
Total expenses	<u>2,284,985</u>	<u>0</u>	<u>2,284,985</u>
Change in net assets	547,535	497,950	1,045,485
Net assets - beginning			<u>0</u>
Net assets - ending	<u>\$547,535</u>	<u>\$497,950</u>	<u>\$1,045,485</u>

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

**THE ETHICAL COMMUNITY CHARTER SCHOOL
STATEMENT OF FUNCTIONAL EXPENSES
FROM INCEPTION THROUGH JUNE 30, 2010**

	<u>Supporting Services</u>			<u>Total</u>	<u>Total</u> <u>Expenses</u>
	<u>Program</u> <u>Services</u>	<u>Management</u> <u>and</u> <u>General</u>	<u>Fundraising</u>		
Salaries	\$877,069	\$337,406	\$11,925	\$349,331	\$1,226,400
Substitute teachers	36,090			0	36,090
Payroll taxes and employee benefits	153,546	\$57,580	\$2,133	59,713	213,259
Total personnel costs	1,066,705	394,986	14,058	409,044	1,475,749
Occupancy (in-kind) (Note 2i)	214,099	53,525		53,525	267,624
Professional fees	630	118,592		118,592	119,222
Classroom materials and supplies	112,298			0	112,298
After school programs	85,082			0	85,082
Recruitment and temporary help		63,836		63,836	63,836
Staff development	44,303	447		447	44,750
Conference and subscription	19,920	16,969		16,969	36,889
Office expenses	18,266	15,560		15,560	33,826
Depreciation	19,368	196		196	19,564
Insurance	9,174	7,814		7,814	16,988
Telephone	2,581	2,199		2,199	4,780
Printing and postage	2,364	2,013		2,013	4,377
Total other than personnel costs	528,085	281,151	0	281,151	809,236
Total expenses	\$1,594,790	\$676,137	\$14,058	\$690,195	\$2,284,985

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

**THE ETHICAL COMMUNITY CHARTER SCHOOL
STATEMENT OF CASH FLOWS
FROM INCEPTION THROUGH JUNE 30, 2010**

Net cash flows from operating activities:	
Change in net assets	\$1,045,485
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	19,564
(Increase)/decrease in assets:	
Contributions receivable	(497,950)
Government grants receivable	(1,278)
Prepaid expenses	(63,593)
Increase/(decrease) in liabilities:	
Accounts payable and accrued expenses	184,358
Total adjustments	<u>(358,899)</u>
Net cash provided by operating activities	<u>686,586</u>
Net cash flows from investment activities:	
Purchase of property and equipment	<u>(238,756)</u>
Net cash used for investing activities	<u>(238,756)</u>
Net increase in cash and cash equivalents	447,830
Cash and cash equivalents, beginning	<u>0</u>
Cash and cash equivalents, ending	<u><u>\$447,830</u></u>
Supplemental disclosures:	
Interest paid	<u>\$0</u>
Taxes paid	<u>\$0</u>

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, 2010

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. Beginning its initial school year in September 2009, the School provides a full range of educational services appropriate for kindergarten and first grade levels. The School completed the 2009-2010 fiscal year with an average enrollment of approximately 120 students. The School is a publicly funded, privately managed school, which is independent of the New York City Department of Education.

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.
- *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. When the restrictions from temporarily restricted contributions have been met in the year of donation, they are reported as unrestricted.

b. Contributions

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

Contributions expected to be received within one year are recorded at their net realizable value. Long-term pledges are recorded at fair value, based on present value of the future cash flows when considered material. Conditional contributions received are recorded as liabilities and are recognized as income when the conditions have been substantially met.

c. Revenues

Public School revenues are recognized on the accrual basis based on rates established by the School's funding sources.

d. 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.

e. Concentration of Credit Risk

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.

f. Government Grants

Government grants that have traits more similar to contracts for service are treated as exchange transactions and are recorded as income when earned. Grants earned in excess of cash received are recorded as grants receivable and cash received in excess of grants earned are recorded as government grant advances.

g. 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.

h. 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 which 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*

- i. Contributed Facilities
The School's operations are located in a facility provided by the New York City Department of Education, 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.
- j. In-kind Contributions
Donated services are recognized at fair value if they 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.
- k. 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.
- l. 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. Accordingly, results could differ from those estimates.
- m. Subsequent Events
Management has evaluated for potential recognition and disclosure events subsequent to the date of the statement of financial position through October 19, 2010, 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 - Contribution Receivable – Related Party

The School was created through a pledge from The Ethical Community Charter School Foundation (the "Foundation") which is an affiliate by nature of common board members.

At June 30, 2010, the contribution receivable of \$497,950 was due from the Foundation, in the following periods:

Year ended: June 30, 2011	\$301,468
June 30, 2012	<u>196,482</u>
Total	<u>\$497,950</u>

No present value discount was taken as it was considered immaterial.

Note 4 - Government Grants Receivable

As of June 30, 2010, the grant receivable consists of the following:

Funding based on allowable FTE's	\$1,533,147
Advances received	<u>(1,531,869)</u>
Amount due from New York City	<u>\$1,278</u>

Note 5 - Fixed Assets

At June 30, 2010, fixed assets consisted of the following:

Computer and equipment	\$62,944
Furniture	60,649
Leasehold improvements	<u>115,163</u>
Total	238,756
Less: accumulated depreciation	<u>(19,564)</u>
Total fixed assets, net	<u>\$219,192</u>

Note 6- Temporarily Restricted Net Assets

Net assets of \$497,950 were restricted for time. See Note 3.

Note 7 - Significant Concentration

The School is dependent upon grants from the New York City Department of Education (NYCDOE) to carry out its operations. For the year ended June 30, 2010, approximately 50% of the School's total public support and revenue, excluding in-kind contributions, was realized from NYCDOE.

Note 8 - Retirement Plan

Effective September 1, 2009, the School sponsors a 401(k) profit sharing plan. All employees may participate by designating a percentage of their salaries, subject to regulatory limits, to be contributed to the plan on a pre-tax basis. The School does not guarantee any contributions to the 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. For the year ended June 30, 2010, the profit sharing plan expense was approximately \$24,000.

Note 9 - Commitments and Contingencies

Government contracts are subject to audit by the grantor. 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, 2010, and for the period from inception to June 30, 2010, and have issued our report thereon dated October 19, 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 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.

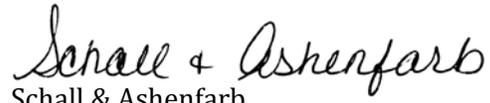
Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified a certain deficiency in internal control over financial reporting, described in the schedule of findings and responses that we consider to be a significant deficiency in internal control over financial reporting as finding 10-1. A significant deficiency is a deficiency or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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 19, 2010.

This report is intended solely for the information and use of management, the Board of Trustees and 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 19, 2010

**THE ETHICAL COMMUNITY CHARTER SCHOOL
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2010**

Current Year:

10-1 - Significant Adjustments

Condition: Three audit adjustments were required that were considered significant to make the financial statements free of material error.

Cause: As part of the process of closing the books, the financial consultant did not perform detailed account analysis and general ledger review of all accounts.

Effect: Audit adjustments were made to correct the books.

Recommendation: The financial consultants should review the general ledger prior to the beginning of the audit and make all adjustments.

Management response: The financial consultants will prepare all adjustments to the books prior to the start of the audit.