

**REPLICATIONS, INC.  
NEW YORK, NEW YORK**

**FINANCIAL STATEMENTS  
AUGUST 31, 2006 AND 2005**

## Replications, Inc.

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## **A. F. Paredes & Co.**

Certified Public Accountants

250 Stelton Road • Suite 8  
Piscataway, NJ 08854

139 Fulton Street • Suite 621  
New York, NY 10038

Tel: (732) 752-9530

Tel: (212) 285-1725

Fax: (732) 752-7954

Fax: (212) 285-1759

website: [paredescpa.com](http://paredescpa.com)

### **Independent Auditor's Report**

To the Board of Directors of  
Replications, Inc.  
New York, New York

We have audited the accompanying statements of financial position of **Replications, Inc.** as of August 31, 2006 and 2005 and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 **Replications, Inc.** as of August 31, 2006 and 2005, and the results of its activities and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

March 23, 2007

**Replications, Inc.**  
**Statements of Financial Position**  
**August 31, 2006 and 2005**

	<u>2006</u>	<u>2005</u>
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents (Notes 1 & 2)	\$ 904,577	\$ 33,870
Unconditional promises to give (Note 3)	134,083	1,554,500
Security deposit	<u>1,590</u>	<u>1,590</u>
<b>Total Current Assets</b>	<u>1,040,250</u>	<u>1,589,960</u>
<b>Property and Equipment</b>		
Furniture, fixtures and equipment -net of depreciation (Note 1)	<u>44,511</u>	<u>62,259</u>
<b>Total Property and Equipment</b>	<u>44,511</u>	<u>62,259</u>
<b>TOTAL ASSETS</b>	<b>\$ <u>1,084,761</u></b>	<b>\$ <u>1,652,219</u></b>
<b>LIABILITIES</b>		
Accounts payable and accrued expenses (Note 4)	<u>\$104,577</u>	<u>\$166,374</u>
<b>NET ASSETS</b>		
Unrestricted	(185,200)	(62,155)
Temporarily restricted (Note 5)	<u>1,165,384</u>	<u>1,548,000</u>
<b>Total Net Assets</b>	<u>980,184</u>	<u>1,485,845</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ <u>1,084,761</u></b>	<b>\$ <u>1,652,219</u></b>

See accompanying notes to financial statements

**Replications, Inc.**  
**Statements of Activities**  
**Years Ended August 31, 2006 and 2005**

	<b>2006</b>			<b>2005</b>
	Unrestricted	Temporarily Restricted	Total Funds	Total
<b>Support and Other Revenue</b>				
Contributions	\$ 212,423	\$ 1,515,066	\$ 1,727,489	\$ 2,197,197
Other Income	14,633	0	14,633	7,206
Net assets released from restrictions- Satisfaction of restriction by payments	349,682	(349,682)		
<b>Total Support and other Revenue</b>	<u>576,738</u>	<u>1,165,384</u>	<u>1,742,122</u>	<u>2,204,403</u>
<b>Expenses</b>				
Program Services	2,017,730	0	2,017,730	1,902,398
Supporting Services- Management and General	139,434	0	139,434	122,889
Fundraising	90,619	0	90,619	84,714
<b>Total Expenses</b>	<u>2,247,783</u>	<u>0</u>	<u>2,247,783</u>	<u>2,110,001</u>
<b>Change in Net Assets</b>	(1,671,045)	1,165,384	(505,661)	94,402
<b>Net Assets- beginning of year</b>	(62,155)	1,548,000	1,485,845	1,391,443
Reclassification- released from restriction	1,548,000	(1,548,000)	0	0
<b>Net Assets- end of year</b>	<u>\$ (185,200)</u>	<u>\$ 1,165,384</u>	<u>\$ 980,184</u>	<u>\$ 1,485,845</u>

See accompanying notes to financial statements

**Replications, Inc.**  
**Statements of Cash Flows**  
**Years Ended August 31, 2006 and 2005**

	<u>2006</u>	<u>2005</u>
Cash flows from operating activities:		
Change in net assets	\$ (505,661)	\$ 94,402
Adjustment to reconcile change in net assets to net cash (used in) provided by operating activities:		
Provision for depreciation	17,748	14,987
(Increase) Decrease in grants receivable	1,420,417	(133,300)
Increase in security deposit	0	(1,590)
Increase (Decrease) in accounts payable and accrued expenses	<u>(61,797)</u>	<u>50,689</u>
Net cash provided by operating activities	<u>870,707</u>	<u>25,188</u>
Cash flows from investing activities:		
Acquisition of equipment	<u>0</u>	<u>(19,960)</u>
Net cash used for investing activities	<u>0</u>	<u>(19,960)</u>
<b>Net increase in cash</b>	870,707	5,228
<b>Cash at beginning of year</b>	<u>33,870</u>	<u>28,643</u>
<b>Cash at end of year</b>	<u>\$ 904,577</u>	<u>\$ 33,870</u>

See accompanying notes to financial statements

**Replications, Inc.**  
**Notes to Financial Statements**  
**August 31, 2006 and 2005**

Note 1: Summary of Significant Accounting Policies

Nature of Activities

The Replications, Inc.(the “Organization” ) is formed for the purpose of increasing the number of proven successful public schools, educational programs and practices in New York City and elsewhere by researching private and public replications and franchises; by developing and field-testing a replication process; by promoting replication or “cloning” as a pragmatic and common sense educational reform strategy; and by facilitating and overseeing the replication of ‘cloning’ of outstanding schools, programs and practice. In furtherance of the foregoing purposes, the Organization shall:

- (a) Design a replication process by which proven successful schools, educational programs and practices can be replicated or “cloned”;
- (b) Field-test the replication process in New York City and elsewhere;
- (c) Facilitate and oversee the replication or cloning of proven successful public schools, educational programs and practices;
- (d) Document the replication process as it is applied to public schools, educational programs and practices;
- (e) Publish and disseminate a Replication Guide so that others may use the replication process to increase the number of proven successful schools, educational programs and practices;
- (f) Promote replication or cloning as the logical next step in educational reform; and,
- (g) To conduct any and all lawful activities which may be useful in accomplishing the foregoing purpose.

**Replications, Inc.**  
**Notes to Financial Statements**  
**August 31, 2006 and 2005**

Note 1: Summary of Significant Accounting Policies (continued):

Financial Statement Presentation

Under SFAS No. 117, the Organization 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. In addition, the Organization is required to present a statement of cash flows.

Restricted and Unrestricted Revenue and Support

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of donor restrictions. The Organization records donor-restricted contributions whose restrictions are met in the same reporting period, as unrestricted support. There was no permanently restricted support received by the Organization during the year.

Cash and Cash Equivalents

The Organization considers all unrestricted highly liquid investments with an initial maturity of three months or less from purchase date to be cash equivalents.

Property and Equipment

Property and equipment are carried at cost. Depreciation is computed using primarily the straight-line method over the estimated useful lives of assets. Depreciation during the year amounted to \$17,748.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and judgments that affect the reported amounts of assets and liabilities at the date of the financial statements and revenues and expenses recognized during the reporting period. Actual results could differ from those estimates.



**Replications, Inc.**  
**Notes to Financial Statements**  
**August 31, 2006 and 2005**

**Note 1: Summary of Significant Accounting Policies (continued):**

Income Taxes

No provision has been made for income taxes because the **Replications, Inc.** is exempt from federal income taxes under the provisions of Internal Revenue Code Sec. 501 (c)(3).

Reclassifications

Certain items in the 2004 financial statements have been reclassified for comparative purposes only.

Concentration of Credit Risk

Due to the timing of the receipt of grants, at times during the years ended August 31, 2006 and 2005, the company maintained cash balances with banking institutions that exceeded the Federal Deposit Insurance Corporation's insurable limits.

**Note 2: Cash and Cash Equivalents**

The cash and cash equivalents balance as of August 31, 2006 and 2005 consist of:

	<u>2006</u>	<u>2005</u>
Chase Bank- Account No. 091-5010935-65	\$ 0	(\$ 12,815)
Chase Checking - Acct. No. 091-3757706-65	92,216	0
Chase Money Market 091-5014696-65	811,861	40,192
Citibank Account No. 8887113001 (Certificate of Deposit)	0	5,895
Citibank Checking-Account No. 0002166303	0	15
Citibank Checking-Account No. 0002166303	0	83
Petty Cash	<u>500</u>	<u>500</u>
Total	<u>\$ 904,577</u>	<u>\$ 33,870</u>

**Replications, Inc.**  
**Notes to Financial Statements**  
**August 31, 2006 and 2005**

**Note 3: Grants Receivable**

The grants receivable as of August 31, 2006 and 2005 consists of the following:

	<u>2006</u>	<u>2005</u>
Bill & Melinda Gates Foundation	\$ 0	\$ 1,170,000
The Clark Foundation	0	100,000
The Nicholas B. Ottaway Foundation	50,000	0
Fund for Educational Excellence	51,250	142,500
JP Morgan Chase Bank, Trustee of the Booth Ferris Foundation	0	75,000
Tiger Foundation	0	50,000
The Skirball Foundation	32,833	
New Visions for Public Schools	<u>0</u>	<u>17,000</u>
Total	<u>\$ 134,083</u>	<u>\$ 1,554,500</u>

Subsequent to August 31, 2006, the organization received \$25,000 from The Nicholas B. Ottaway Foundation.

**Note 4: Accounts Payable and Accrued Expenses**

The balance of this account as of August 31, 2006 and 2005 consists of the following:

<u>Particulars</u>	<u>2006</u>	<u>2005</u>
Professional Fees	\$ 16,675	\$ 0
Supplies	53,003	64,496
Retreat	0	20,886
Summer staff planning & orientation	15,587	0
Rent & Utilities	3,065	0
Consultants	5,260	32,005
Computers	0	5,025
Others	<u>10,987</u>	<u>43,962</u>
Total	<u>\$ 104,577</u>	<u>\$166,374</u>

Subsequent to August 31, 2006, these were paid to vendors.

**Replications, Inc.**  
**Notes to Financial Statements**  
**August 31, 2006 and 2005**

**Note 5: Temporarily Restricted Assets**

At August 31, 2006 and 2005, funds are available for the following purposes:

<u>Donor</u>	<u>Program</u>	<u>2006</u>	<u>2005</u>
Bill & Melinda Gates Foundation	Replicate 8 high performing high schools	\$1,031,300	\$1,170,000
New Visions for Public Schools	Support of Bronx International High School	0	13,000
Fund for Educational Excellence	Open Highschools in Baltimore	51,250	265,000
JP Morgan Chase Bank-Trustee of Booth Ferris Foundation	To hire an associate director of development	0	75,000
Skirball Foundation	Increase number of high level performing public schools	32,834	0
Ottaway Foundation	Support of Kappa II, Kappa IV and Kappa VI Educational program	50,000	25,000
NY Community Trust	Leadership Training	<u>0</u>	<u>0</u>
	Total	<u>\$ 1,165,384</u>	<u>\$ 1,548,000</u>

**Note 6: Tax-Deferred Annuity Plan**

The Organization entered into a tax-deferred annuity plan qualified under Section 403(b) of the Internal Revenue Code for all eligible employees. The Organization contributed 6% of an employee's covered compensation to the plan. Employees may make contributions to the plan up to the maximum amount allowed by the Internal Revenue Code. Pension expense related to this plan were \$15,673 and \$12,277 for the years ended August 31, 2006 and 2005, respectively.

**Replications, Inc.**  
**Notes to Financial Statements**  
**August 31, 2006 and 2005**

**Note 7: Commitments**

The Organization entered into a lease agreement with International Business Centers for the portion of the 4<sup>th</sup> floor in the building known as 292 Fifth Avenue in the Borough of Manhattan. No current lease agreement is available. It also entered into a lease agreement with J & H Realty & Relocation Services for the temporary residence of an officer while on a school replications program in Chicago. The total rent paid on these two properties aggregated \$40,304 and \$20,515 for the years ended August 31, 2006 and 2005, respectively.

**Note 8: Restatement of Prior Year Financial Statements**

Prior year financial statements have been restated due to the following:

Net Assets, August 31, 2005	\$1,481,345
Under-accrual of prior year revenue	<u>4,500</u>
Net Assets, August 31, 2006 (as restated)	<u><u>\$1,485,845</u></u>



## A. F. Paredes & Co.

Certified Public Accountants

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Piscataway, NJ 08854

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Fax: (212) 285-1759

website: [paredescpa.com](http://paredescpa.com)

### Independent Auditor's Report on Additional Information

To the Board of Directors of  
Replications, Inc.  
New York, New York

Our report on the audits of the basic financial statements of **Replications, Inc.** for the years ended August 31, 2006 and 2005, was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules of functional expenses are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information have been subjected to auditing procedures applied in the audits of the basic financial statements and, in our opinion, are fairly stated in all material aspects in relation to the basic financial statements taken as a whole.

March 23, 2007

**Replications, Inc.**  
**Schedule of Functional Expenses**  
**Years Ended August 31, 2006 and 2005**

	Program Services	Supporting Services		Total 2006	Total 2005
		Management	Fundraising		
Compensation and related expenses					
Salaries and wages	\$ 573,238	\$ 54,880	\$ 54,880	\$ 682,998	\$ 539,431
Employee benefits/payroll taxes	89,649	12,442	12,443	114,534	110,023
	<u>662,887</u>	<u>67,322</u>	<u>67,323</u>	<u>797,532</u>	<u>649,454</u>
Grant expenses	128,698	0	0	128,698	46,942
Pension	15,673	0	0	15,673	12,277
Consultants	98,337	0	0	98,337	471,996
Stipends and Incentive Fees	192,443	0	0	192,443	197,985
Professional fees	79,827	0	0	79,827	41,120
Special Events	79,811	0	0	79,811	16,251
Advertising	18,846	5,654	2,423	26,923	18,365
Supplies-office	4,200	1,260	540	6,000	1,121
Supplies-School Site Readiness Expenses	500,007	0	0	500,007	265,702
Printing and reproduction	31,626	9,488	4,066	45,180	19,533
Meals and entertainment	15,147	4,544	1,947	21,638	37,137
Telephone	7,694	2,308	989	10,992	18,158
Design	5,193	1,558	667	7,418	8,770
Rent (Note 7)	28,213	8,464	3,627	40,304	20,515
Student Portraits	7,905	0	0	7,905	8,062
Website/Internet	7,102	2,131	913	10,146	1,755
Depreciation	0	17,748	0	17,748	14,987
Training and professional development	64,942	0	0	64,942	181,532
Postage	8,370	2,511	1,076	11,957	6,666
Travel	14,512	4,354	1,866	20,731	48,280
Miscellaneous	46,297	12,092	5,182	63,571	23,393
Total	<u>\$ 2,017,730</u>	<u>\$ 139,434</u>	<u>\$ 90,619</u>	<u>\$ 2,247,783</u>	<u>\$ 2,110,001</u>

See accompanying notes to financial statements