

# **Manhattan Charter Schools**

Financial Statements

June 30, 2017

## Independent Auditors' Report

### **Board of Trustees Manhattan Charter Schools**

We have audited the accompanying financial statements of Manhattan Charter Schools (the "School"), which comprise the statement of financial position as of June 30, 2017, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditors' Responsibility***

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the School's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

***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, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Report on Supplementary Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of activities by school on page 14 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated September 28, 2017, 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 solely 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 effectiveness of the School's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control over financial reporting and compliance.

*PKF O'Connor Davies, LLP*

Harrison, New York  
September 28, 2017

## Manhattan Charter Schools

### Statement of Financial Position June 30, 2017

#### ASSETS

##### Current Assets

Cash and cash equivalents	\$ 5,560,829
Investments	1,302,891
Grants and contracts receivable	247,503
Prepaid expenses and other current assets	<u>73,376</u>
Total Current Assets	7,184,599

Property and equipment, net	332,771
Restricted cash	<u>147,843</u>

\$ 7,665,213

#### LIABILITIES AND NET ASSETS

##### Current Liabilities

Accounts payable and accrued expenses	\$ 186,548
Accrued payroll and payroll taxes	991,620
Refundable advances	<u>133,584</u>
Total Current Liabilities	<u>1,311,752</u>

##### Net Assets

##### Unrestricted

Undesignated	5,217,961
Board-designated	<u>1,075,000</u>
Total Unrestricted Net Assets	6,292,961

Temporarily restricted	<u>60,500</u>
Total Net Assets	<u>6,353,461</u>

\$ 7,665,213

**Manhattan Charter Schools**

Statement of Activities  
Year Ended June 30, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<b>OPERATING REVENUE</b>			
State and local per pupil operating revenue			
General education	\$ 7,051,693	\$ -	\$ 7,051,693
Special education	719,320	-	719,320
Federal grants	302,269	-	302,269
State and city grants	<u>41,214</u>	<u>-</u>	<u>41,214</u>
Total Operating Revenue	<u>8,114,496</u>	<u>-</u>	<u>8,114,496</u>
<b>EXPENSES</b>			
Program Services			
Regular education	5,424,143	-	5,424,143
Special education	1,019,825	-	1,019,825
Extended day	<u>29,907</u>	<u>-</u>	<u>29,907</u>
Total Program Services	6,473,875	-	6,473,875
Supporting Services			
Management and general	818,037	-	818,037
Fundraising	<u>28,022</u>	<u>-</u>	<u>28,022</u>
Total Expenses	<u>7,319,934</u>	<u>-</u>	<u>7,319,934</u>
 Surplus from Operations	 794,562	 -	 794,562
<b>SUPPORT AND OTHER REVENUE</b>			
Contributions	21,284	70,500	91,784
Investment income, net	11,706	-	11,706
Net assets released from restrictions	<u>10,000</u>	<u>(10,000)</u>	<u>-</u>
Total Support and Other Revenue	<u>42,990</u>	<u>60,500</u>	<u>103,490</u>
 Change in Net Assets	 837,552	 60,500	 898,052
<b>NET ASSETS</b>			
Beginning of year	1,042,395	-	1,042,395
Transfer of net assets pursuant to merger of MCS	<u>4,413,014</u>	<u>-</u>	<u>4,413,014</u>
End of year	<u>\$ 6,292,961</u>	<u>\$ 60,500</u>	<u>\$ 6,353,461</u>

See notes to financial statements

**Manhattan Charter Schools**

Statement of Functional Expenses  
Year Ended June 30, 2017

	Program Services				Management and General	Fundraising	Total
	General Education	Special Education	Extended Day	Total			
Salaries and wages	\$ 3,694,211	\$ 676,786	\$ 14,000	\$ 4,384,997	\$ 438,118	\$ 19,122	\$ 4,842,237
Employee benefits and payroll taxes	793,744	145,471	3,013	942,228	94,099	4,104	1,040,431
Professional and accounting services	47,165	10,027	45	57,237	214,353	75	271,665
Professional development	77,060	16,295	111	93,466	23,911	2,909	120,286
Consultants	232,727	52,127	11,592	296,446	6,740	296	303,482
Leased equipment	7,325	1,349	28	8,702	864	37	9,603
Supplies and materials	32,945	7,191	36	40,172	6,676	46	46,894
Curriculum and classroom	189,675	43,326	-	233,001	-	-	233,001
Travel and conferences	27,444	6,256	-	33,700	58	-	33,758
Insurance	49,107	9,078	192	58,377	5,768	247	64,392
Postage and printing	3,586	644	13	4,243	433	20	4,696
Technology and communications	93,878	17,209	357	111,444	11,129	486	123,059
Dues and subscriptions	14,770	2,961	20	17,751	742	34	18,527
Food service	5,450	1,227	-	6,677	-	-	6,677
Student and staff recruitment and retention	31,522	7,062	21	38,605	547	22	39,174
Depreciation and amortization	111,400	20,529	431	132,360	13,127	567	146,054
Facility	12,134	2,287	48	14,469	1,397	57	15,923
Miscellaneous	-	-	-	-	75	-	75
<b>Total Expenses</b>	<b>\$ 5,424,143</b>	<b>\$ 1,019,825</b>	<b>\$ 29,907</b>	<b>\$ 6,473,875</b>	<b>\$ 818,037</b>	<b>\$ 28,022</b>	<b>\$ 7,319,934</b>

## Manhattan Charter Schools

### Statement of Cash Flows Year Ended June 30, 2017

#### **CASH FLOWS FROM OPERATING ACTIVITIES**

Change in net assets	\$ 898,052
Adjustments to reconcile change in net assets to net cash from operating activities	
Depreciation and amortization	146,054
Unrealized loss on investments	1,097
Changes in operating assets and liabilities	
Grants and contracts receivable	(79,402)
Prepaid expenses and other current assets	22,377
Accounts payable and accrued expenses	34,149
Accrued payroll and payroll taxes	239,803
Refundable advances	<u>125,410</u>
Net Cash from Operating Activities	<u>1,387,540</u>

#### **CASH FLOWS FROM INVESTING ACTIVITIES**

Purchases of property and equipment	(127,647)
Change in market value of investments	(10,291)
Restricted cash	<u>(729)</u>
Net Cash from Investing Activities	<u>(138,667)</u>

Net Change in Cash and Cash Equivalents 1,248,873

#### **CASH AND CASH EQUIVALENTS**

Beginning of year	<u>4,311,956</u>
End of year	<u>\$ 5,560,829</u>

## **Manhattan Charter Schools**

Notes to Financial Statements  
June 30, 2017

### **1. Organization and Tax Status**

Manhattan Charter Schools is a New York State not-for-profit education corporation operating in New York City pursuant to Article 56 of the Education Law of the State of New York. The accompanying financial statements include the following charter schools collectively referred to as the "School".

Manhattan Charter School ("MCS") was incorporated on July 21, 2004, and was granted a provisional charter on July 21, 2004 valid for a term of five years and renewable upon expiration by the Board of Regents of the University of the State of New York. The Board of Regents approved and issued several renewals to MCS's charter. Effective July 1, 2016, MCS's charter agreement was incorporated into MCS II's amended and restated charter agreement (see below).

Manhattan Charter School II ("MCS II") was incorporated on September 13, 2011 and was granted a provisional charter on September 13, 2011 valid for a term of five years and renewable upon expiration by the Board of Regents of the University of the State of New York. The Board of Regents approved and issued a renewal to its amended and restated charter for an additional five-year term expiring July 31, 2022.

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. The School provided education to approximately 487 students in kindergarten through fifth grade during the 2016-2017 academic year.

MCS and MCS II merged into a single not-for-profit legal entity under MCS II, which serves as the sole surviving educational corporation. The plan of merger was approved by the State University of New York Charter School Committee on February 25, 2016, and became effective for financial purposes on July 1, 2016. MCS II changed its name to Manhattan Charter Schools and each school is authorized by the Charter Schools Institute of the State University of New York under MCS II's provisional charter, as amended to effect the merger. MCS was dissolved in conjunction with this merger.

The School shares space with New York City public schools. The School is not responsible for rent, utilities, custodial services, maintenance and school safety services other than security related to the School's programs that take place outside the district's school day. The School was unable to determine a value for the contributed space and related services and did not record any value for use of donated facilities.

The New York City Department of Education provides free lunches and transportation directly to some of the School's students. Such costs are not included in these financial statements. The School covers a portion of the cost of lunches for children not entitled to the free lunches.

Except for taxes that may be due for unrelated business income, the School is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and from state and local income taxes under comparable laws.



## Manhattan Charter Schools

Notes to Financial Statements  
June 30, 2017

### 2. Summary of Significant Accounting Policies

#### ***Basis of Presentation and Use of Estimates***

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"), which 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 revenues and expenses during the reporting period. Accordingly actual results could differ from those estimates.

#### ***Net Assets Presentation***

Resources for various purposes are classified for accounting and reporting purposes into net asset categories established according to nature and purpose as follows:

*Unrestricted* - consist of resources available for the general support of the School's operations. Unrestricted net assets may be used at the discretion of the School's management and Board of Trustees. The Board of Trustees has designated \$1,075,000 for long-term educational planning, organizational growth or facilities planning.

*Temporarily Restricted* - represent amounts restricted by donors for specific activities of the School or to be used at some future date. The School records contributions as temporarily restricted if they are received with donor stipulations that limit their use either through purpose or time restrictions. When a donor restriction expires, that is, when a time restriction ends or a purpose restriction is fulfilled, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. However, when restrictions on donor-restricted contributions are met in the same accounting period in which they are received, such amounts are reported as unrestricted net assets.

*Permanently Restricted* - consist of net assets that are subject to donor imposed restrictions that require the School to maintain them permanently, including funds that are subject to restrictions of gift instruments requiring that the principal be invested in perpetuity and the income be used for specific or general purposes. Income and gains earned on endowment fund investments are available to be used in the unrestricted or temporarily restricted net asset classes based upon stipulations by the donors.

The School had no permanently restricted net assets at June 30, 2017.

## **Manhattan Charter Schools**

Notes to Financial Statements  
June 30, 2017

### **2. Summary of Significant Accounting Policies (*continued*)**

#### ***Fair Value Measurements***

The School follows U.S. GAAP guidance on Fair Value Measurements which defines fair value and establishes a fair value hierarchy organized into three levels based upon the input assumptions used in pricing assets. Level 1 inputs have the highest reliability and are related to assets with unadjusted quoted prices in active markets. Level 2 inputs relate to assets with other than quoted prices in active markets which may include quoted prices for similar assets or liabilities or other inputs which can be corroborated by observable market data. Level 3 inputs are unobservable inputs and are used to the extent that observable inputs do not exist.

#### ***Investment Income Recognition***

Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis and dividends are recorded on the ex-dividend date. Realized and unrealized gains and losses are included in the determination of income.

#### ***Cash and Cash Equivalents***

Cash and cash equivalents include cash balances held in bank accounts and highly liquid debt instruments with maturities of three months or less at the time of purchase.

#### ***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***

The School follows the practice of capitalizing all expenditures for property and equipment with costs in excess of \$1,000 and a useful life in excess of one year. Leasehold improvements are amortized over the shorter of the term of the lease, inclusive of all renewal periods, which are reasonably assured, or the estimated useful life of the asset, which is five years. Purchased property and equipment are recorded at cost at the date of acquisition. Minor costs of maintenance and repairs are expensed as incurred. All property and equipment purchased with government funding is capitalized, unless the government agency retains legal title to such assets, whereby such assets are expensed as incurred.

## Manhattan Charter Schools

Notes to Financial Statements  
June 30, 2017

### 2. Summary of Significant Accounting Policies *(continued)*

#### ***Property and Equipment (continued)***

Depreciation and amortization is recognized on the straight-line method over the estimated useful lives of such assets as follows:

Computers and equipment	3 - 5 years
Furniture and fixtures	7 years
Software	3 years

Property and equipment are reviewed for impairment if the use of the asset significantly changes or another indicator of possible impairment is identified. If the carrying amount for the asset is not recoverable, the asset is written down to the fair value. There were no asset impairments for the years ended June 30, 2017.

#### ***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***

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.

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.

#### ***Functional Expense Allocation***

The majority of expenses can generally be directly identified with the program or supporting service to which they relate and are charged accordingly. Other expenses by function have been allocated among program and supporting services classifications on the basis of periodic time and expense studies and other basis as determined by management of the School to be appropriate.

## Manhattan Charter Schools

Notes to Financial Statements  
June 30, 2017

### 2. Summary of Significant Accounting Policies *(continued)*

#### ***Accounting for Uncertainty in Income Taxes***

The School recognizes the effect of income tax positions only if those positions are more likely than not to be sustained. Management has determined that the School had no uncertain tax positions that would require financial statement recognition or disclosure. The School is no longer subject to examinations by the applicable taxing jurisdictions for years prior to June 30, 2014.

#### ***Subsequent Events Evaluation by Management***

Management has evaluated subsequent events for disclosure and/or recognition in the financial statements through the date that the financial statements were available to be issued, which date is September 28, 2017.

### 3. Investments

At June 30, 2017, investments held by the School consisted of the following:

	<u>Cost</u>	<u>Market</u>
Certificates of deposit	\$ 1,075,000	\$ 1,076,957
Money market	<u>225,934</u>	<u>225,934</u>
	<u>\$ 1,300,934</u>	<u>\$ 1,302,891</u>

Investment income consisted of the following for the year ended June 30, 2017:

Interest	\$ 12,803
Unrealized loss on investments	<u>(1,097)</u>
	<u>\$ 11,706</u>

### 4. Grants and Contracts Receivable

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

## Manhattan Charter Schools

Notes to Financial Statements  
June 30, 2017

### 5. Property and Equipment

Property and equipment consisted of the following at June 30, 2017:

Computers and equipment	\$ 779,684
Furniture and fixtures	182,797
Leasehold improvements	174,237
Software	<u>18,015</u>
	1,154,733
Accumulated depreciation and amortization	<u>(821,962)</u>
	<u>\$ 332,771</u>

### 6. Employee Benefit Plan

The School maintains a pension plan qualified under Internal Revenue Code 403(b), for the benefit of its eligible employees. Under the plan, the School provided matching contributions up to 4% of the participant's annual compensation. Employee match for the year ended June 30, 2017 amounted to \$126,555.

### 7. Concentration of Credit Risk

Financial instruments that potentially subject the School to concentrations of credit and market risk consist principally of cash and cash equivalents on deposit with financial institutions, which from time to time may exceed the Federal Deposit Insurance Corporation ("FDIC") limit. The School does not believe that a significant risk of loss due to the failure of a financial institution presently exists. As of June 30, 2017, approximately \$5,400,000 of cash was maintained with an institution in excess of FDIC limits.

### 8. Concentration of Revenue and Support

The School receives a substantial portion of its revenue and support from the New York City Department of Education. For the year ended June 30, 2017, the School received approximately 95% of total revenue and support 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.

### 9. Temporarily Restricted Net Assets

Temporarily restricted net assets consist of the following at June 30, 2017:

Musical education	\$ 56,000
Training of teachers in JUMP Math	<u>4,500</u>
	<u>\$ 60,500</u>

Net assets of \$10,000 were released from donor restrictions for the training of teachers in JUMP Math program for the year ended June 30, 2017.

## **Manhattan Charter Schools**

Notes to Financial Statements  
June 30, 2017

### **10. Contingency**

Certain grants and contracts may be subject to audit by the funding sources. Such audits might result in disallowances of costs submitted for reimbursements. 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.

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# **Manhattan Charter Schools**

Supplementary Information

June 30, 2017

**Manhattan Charter Schools**

Schedule of Activities by School  
Year Ended June 30, 2017

	Manhattan Charter School			Manhattan Charter School II			Total
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total	
<b>OPERATING REVENUE</b>							
State and local per pupil operating revenue							
General education	\$ 3,859,277	\$ -	\$ 3,859,277	\$ 3,192,416	\$ -	\$ 3,192,416	\$ 7,051,693
Special education	455,113	-	455,113	264,207	-	264,207	719,320
Federal grants	168,379	-	168,379	133,890	-	133,890	302,269
State and city grants	21,267	-	21,267	19,947	-	19,947	41,214
Total Operating Revenue	<u>4,504,036</u>	<u>-</u>	<u>4,504,036</u>	<u>3,610,460</u>	<u>-</u>	<u>3,610,460</u>	<u>8,114,496</u>
<b>EXPENSES</b>							
Program Services							
Regular education	3,074,561	-	3,074,561	2,349,582	-	2,349,582	5,424,143
Special education	568,158	-	568,158	451,667	-	451,667	1,019,825
Extended day	9,205	-	9,205	20,702	-	20,702	29,907
Total Program Services	3,651,924	-	3,651,924	2,821,951	-	2,821,951	6,473,875
Supporting Services							
Management and general	453,913	-	453,913	364,124	-	364,124	818,037
Fundraising	17,357	-	17,357	10,665	-	10,665	28,022
Total Expenses	<u>4,123,194</u>	<u>-</u>	<u>4,123,194</u>	<u>3,196,740</u>	<u>-</u>	<u>3,196,740</u>	<u>7,319,934</u>
Surplus from Operations	380,842	-	380,842	413,720	-	413,720	794,562
<b>SUPPORT AND OTHER REVENUE</b>							
Contributions	21,284	42,500	63,784	-	28,000	28,000	91,784
Investment income, net	11,479	-	11,479	227	-	227	11,706
Net assets released from restrictions	10,000	(10,000)	-	-	-	-	-
Total Support and Other Revenue	<u>42,763</u>	<u>32,500</u>	<u>75,263</u>	<u>227</u>	<u>28,000</u>	<u>28,227</u>	<u>103,490</u>
Change in Net Assets	423,605	32,500	456,105	413,947	28,000	441,947	898,052
<b>NET ASSETS</b>							
Beginning of year	<u>4,413,014</u>	<u>-</u>	<u>4,413,014</u>	<u>1,042,395</u>	<u>-</u>	<u>1,042,395</u>	<u>5,455,409</u>
End of year	<u>\$ 4,836,619</u>	<u>\$ 32,500</u>	<u>\$ 4,869,119</u>	<u>\$ 1,456,342</u>	<u>\$ 28,000</u>	<u>\$ 1,484,342</u>	<u>\$ 6,353,461</u>

See independent auditors' report



**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**

**Independent Auditors' Report**

**Board of Trustees  
Manhattan Charter Schools**

We have audited, in accordance with the 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, the financial statements of Manhattan Charter Schools (the "School"), which comprise the statement of financial position as of June 30, 2017, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated September 28, 2017.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the School's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the School's internal control.

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 a 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. A *significant deficiency* is a deficiency, or a 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the School's financial statements are free from 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*.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the School's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*PKF O'Connor Davies, LLP*

Harrison, New York  
September 28, 2017

# **Manhattan Charter Schools**

Auditors' Communication on Internal Control

June 30, 2017

**Board of Trustees**  
**Manhattan Charter Schools**

In planning and performing our audit of the financial statements of Manhattan Charter Schools (the "School") as of and for the year ended June 30, 2017, in accordance with auditing standards generally accepted in the United States of America, we considered the School's internal control over financial reporting ("internal control") as a basis for designing audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the School's internal control.

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 was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies, or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified.

We did not identify any deficiencies in internal control that we consider to be material weaknesses as defined above.

This communication is intended solely for the information and use of management, audit committee, Board of Trustees, The Charter Schools Institute of the State University 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.

We would like to take this opportunity to acknowledge the courtesy and assistance extended to us by the personnel of the School during the course of our audit.

*PKF O'Connor Davies, LLP*

Harrison, New York  
September 28, 2017



September 28, 2017

To the Board of Trustees  
Manhattan Charter Schools

Re: Auditors' Communication with Those Charged with Governance

We have audited the financial statements of Manhattan Charter Schools (the "School") as of and for the year ended June 30, 2017, and have issued our report thereon dated September 28, 2017. Professional standards require that we provide you with information about our responsibilities under auditing standards generally accepted in the United States of America and Government Auditing Standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter to you dated March 31, 2017. This letter provides additional required communications related to our audit.

### **Our responsibility under professional standards**

Our responsibility is to form and express an opinion about whether the financial statements, which are the responsibility of management, are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America ("US GAAP"). Those individuals charged with governance of the School are responsible for the oversight of the financial reporting process, and our audit does not relieve management and those charged with governance of their respective responsibilities.

Our responsibility for the supplementary information accompanying the financial statements is to evaluate the presentation of the supplementary information in relation to the financial statements as a whole and to report on whether the supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.

With respect to such supplementary information, we made certain inquiries of management and evaluated the form, content and methods of preparing the information to determine that the information complies with US GAAP, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

In connection with our audit we performed tests of the School's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

## **Qualitative aspects of significant accounting practices**

### *Significant accounting policies*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the School are described in Note 2 to the financial statements. There have been no initial selection of accounting policies and no changes in significant accounting policies or their application during the reporting period that had a significant impact on the financial statements. No matters have come to our attention that would require us to inform you about (1) the methods used to account for significant unusual transactions, and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

### *Significant accounting estimates*

Accounting estimates made by management are an integral part of the financial statements and are based on management's knowledge and experience about past and current events and assumptions about future events. Actual results could differ from those estimates.

Certain accounting estimates are particularly sensitive because of their significance to financial statements and their susceptibility to change, such as collectability of grants receivable, useful lives of fixed assets, and functional allocation of expenses. Management believes that the estimates used and assumptions made are adequate based on the information currently available. We evaluated the key factors and assumptions used to develop the estimates in determining that they are reasonable in relation to the financial statements as a whole.

### *Financial statement disclosures*

The financial statement disclosures are consistent and clear.

## **Significant difficulties encountered during the audit**

We encountered no significant difficulties in dealing with management relating to the performance of the audit.

## **Uncorrected and corrected misstatements**

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management.

We are required to communicate to you misstatements that remain uncorrected, including any related to prior periods, and the effect, if any, that they may have on the opinion in our report, and request their correction. There are no such financial statement misstatements that remain uncorrected.

In addition, we are required to communicate to you all material, corrected misstatements that were brought to the attention of management as a result of our audit procedures. Our audit did not identify misstatements that were corrected by management.

### **Disagreements with management**

For purposes of this letter, a disagreement with management is a matter, whether or not resolved to our satisfaction, concerning financial accounting, reporting, or auditing, which could be significant to the financial statements or the auditors' report. No such disagreements arose during the course of the audit.

### **Management's consultations with other accountants**

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

### **Other matters discussed with management**

We generally discuss with management a variety of matters, including the application of accounting principles and auditing standards, business conditions affecting the School, and business plans and strategies that may affect the risks of material misstatement. None of the matters discussed and our responses thereto were a condition to our retention as auditors.

### **Auditor independence**

We affirm that PKF O'Connor Davies, LLP is independent with respect to the School in accordance with the AICPA's *Code of Professional Conduct*.

This communication is intended solely for the information and use of the Board of Trustees and management of the School and is not intended to be and should not be used by anyone other than these specified parties.

Yours sincerely,

*PKF O'Connor Davies, LLP*

**PKF O'Connor Davies, LLP**