

MANHATTAN CHARTER SCHOOL

FINANCIAL STATEMENTS

JUNE 30, 2016

(with comparative financial information for June 30, 2015)

MANHATTAN CHARTER SCHOOL
FINANCIAL STATEMENTS
JUNE 30, 2016
(with comparative financial information for June 30, 2015)

CONTENTS

| | <u>PAGE</u> |
|---|-------------|
| INDEPENDENT AUDITORS' REPORT | 1 – 2 |
| FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION: | |
| Statements of financial position | 3 |
| Statements of activities | 4 |
| Statements of functional expenses | 5 |
| Statements of cash flows | 6 |
| Notes to financial statements | 7 – 13 |
| INDEPENDENT AUDITORS' 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 OF
MANHATTAN CHARTER SCHOOL

Report on the Financial Statements

We have audited the accompanying financial statements of Manhattan Charter School (the "School") (a not-for-profit corporation), which comprise the statement of financial position as of June 30, 2016, 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 auditors' 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, 2016, 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 Summarized Comparative Information

We have previously audited the School's 2015 financial statements, and our report dated September 16, 2015, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 7, 2016, 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 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.


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

New York, New York
October 7, 2016

MANHATTAN CHARTER SCHOOL
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2016
(with comparative information for June 30, 2015)

| | 2016 | 2015 |
|--|---------------------|---------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 3,161,791 | \$ 2,301,664 |
| Investments | 1,293,697 | 1,514,002 |
| Due from related party | 122,468 | 163,514 |
| Grants and contracts receivable | 92,299 | 61,981 |
| Prepaid expenses and other current assets | 63,225 | 85,184 |
| Total current assets | 4,733,480 | 4,126,345 |
| Property and equipment, net of accumulated depreciation and amortization of \$460,392 and \$413,274, respectively | 188,358 | 123,480 |
| Restricted cash | 71,648 | 71,147 |
| TOTAL ASSETS | \$ 4,993,486 | \$ 4,320,972 |
| LIABILITIES AND UNRESTRICTED NET ASSETS | | |
| Current liabilities: | | |
| Accounts payable and accrued expenses | \$ 91,577 | \$ 90,970 |
| Accrued payroll and payroll taxes | 486,050 | 570,418 |
| Refundable advances | 2,845 | 13,708 |
| Total current liabilities | 580,472 | 675,096 |
| Unrestricted net assets: | | |
| Undesignated | 3,128,014 | 2,145,876 |
| Board-designated | 1,285,000 | 1,500,000 |
| Total unrestricted net assets | 4,413,014 | 3,645,876 |
| TOTAL LIABILITIES AND UNRESTRICTED NET ASSETS | \$ 4,993,486 | \$ 4,320,972 |

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

MANHATTAN CHARTER SCHOOL
STATEMENTS OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016

(with summarized comparative financial information for the year ended June 30, 2015)

| | 2016 | 2015 |
|---|--------------|--------------|
| Revenue and support: | | |
| State and local per pupil operating revenue | \$ 4,208,217 | \$ 4,094,131 |
| Federal grants | 148,233 | 132,659 |
| State and city grants | 20,429 | 21,630 |
| Contributions and grants | 19,394 | 51,777 |
| Investment income, net | 6,973 | 12,621 |
| Total revenue and support | 4,403,246 | 4,312,818 |
| Expenses: | | |
| Program services: | | |
| Regular education | 2,602,414 | 2,853,511 |
| Special education | 529,221 | 599,813 |
| Extended day | 45,175 | 32,636 |
| Total program services | 3,176,810 | 3,485,960 |
| Supporting services: | | |
| Management and general | 429,204 | 441,081 |
| Fundraising | 30,094 | 28,932 |
| Total expenses | 3,636,108 | 3,955,973 |
| Changes in unrestricted net assets | 767,138 | 356,845 |
| Unrestricted net assets - beginning of year | 3,645,876 | 3,289,031 |
| Unrestricted net assets - end of year | \$ 4,413,014 | \$ 3,645,876 |

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

MANHATTAN CHARTER SCHOOL
STATEMENTS OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2016

(with summarized comparative financial information for the year ended June 30, 2015)

| | 2016 | | | | | | | 2015 |
|--|----------------------|----------------------|------------------|---------------------|---------------------------|------------------|---------------------|---------------------|
| | Program Services | | | | Supporting Services | | | |
| | Regular Education | Special Education | Extended Day | Total | Management and General | Fundraising | Total | |
| Salaries and wages | \$ 1,730,726 | \$ 347,755 | \$ 34,378 | \$ 2,112,859 | \$ 266,965 | \$ 19,141 | \$ 2,398,965 | \$ 2,770,841 |
| Employee benefits and payroll taxes | 380,882 | 76,531 | 7,565 | 464,978 | 58,752 | 4,212 | 527,942 | 579,375 |
| Professional and accounting services | 28,755 | 6,116 | 217 | 35,088 | 74,179 | 121 | 109,388 | 84,054 |
| Professional development | 67,520 | 14,524 | 338 | 82,382 | 8,122 | 5,129 | 95,633 | 59,687 |
| Consultants | 129,644 | 27,998 | 535 | 158,177 | 4,150 | 298 | 162,625 | 106,319 |
| Leased equipment | 7,675 | 1,542 | 152 | 9,369 | 1,184 | 85 | 10,638 | 6,618 |
| Supplies and materials | 20,970 | 4,539 | 75 | 25,584 | 579 | 43 | 26,206 | 25,958 |
| Curriculum and classroom | 113,053 | 24,956 | - | 138,009 | - | - | 138,009 | 133,374 |
| Travel and conferences | 15,515 | 3,408 | 3 | 18,926 | 27 | 2 | 18,955 | 12,262 |
| Insurance | 28,237 | 5,674 | 561 | 34,472 | 4,355 | 312 | 39,139 | 38,151 |
| Postage and printing | 1,486 | 299 | 30 | 1,815 | 229 | 16 | 2,060 | 2,281 |
| Technology and communications | 23,366 | 4,695 | 464 | 28,525 | 3,604 | 258 | 32,387 | 42,715 |
| Dues and subscriptions | 5,528 | 1,111 | 110 | 6,749 | 853 | 61 | 7,663 | 12,429 |
| Food services | 2,011 | 442 | - | 2,453 | - | - | 2,453 | 2,694 |
| Student and staff recruiting and retention | 11,487 | 2,486 | 41 | 14,014 | 321 | 23 | 14,358 | 22,068 |
| Depreciation and amortization | 33,993 | 6,830 | 675 | 41,498 | 5,244 | 376 | 47,118 | 53,447 |
| Facility | 1,566 | 315 | 31 | 1,912 | 242 | 17 | 2,171 | 3,218 |
| Miscellaneous | - | - | - | - | 398 | - | 398 | 482 |
| Total expenses | \$ 2,602,414 | \$ 529,221 | \$ 45,175 | \$ 3,176,810 | \$ 429,204 | \$ 30,094 | \$ 3,636,108 | \$ 3,955,973 |

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

MANHATTAN CHARTER SCHOOL
STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2016
(with summarized comparative financial information for the year ended June 30, 2015)

| | 2016 | 2015 |
|---|---------------------|---------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Changes in unrestricted net assets | \$ 767,138 | \$ 356,845 |
| Adjustments to reconcile changes in unrestricted net assets to net cash provided by operating activities: | | |
| Depreciation and amortization | 47,118 | 53,447 |
| Unrealized loss (gain) on investments | 955 | (2,628) |
| Changes in certain assets and liabilities: | | |
| (Increase) Decrease in grants and contracts receivable | (30,318) | 1,740 |
| Decrease (Increase) in prepaid expenses and other current assets | 21,959 | (2,886) |
| Decrease (Increase) in due from related party | 41,046 | (6,905) |
| Increase (Decrease) in accounts payable and accrued expenses | 607 | (2,815) |
| (Decrease) Increase in accrued payroll and payroll taxes | (84,368) | 18,430 |
| (Decrease) Increase in refundable advances | (10,863) | 13,708 |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | 753,274 | 428,936 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Maturity of certificate of deposit | 215,000 | - |
| Decrease (Increase) in market value of investments | 4,350 | (2,551) |
| (Increase) in restricted cash | (501) | (538) |
| Purchases of property and equipment | (111,996) | (23,736) |
| NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES | 106,853 | (26,825) |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | 860,127 | 402,111 |
| CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR | 2,301,664 | 1,899,553 |
| CASH AND CASH EQUIVALENTS - END OF YEAR | \$ 3,161,791 | \$ 2,301,664 |

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

MANHATTAN CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016
(with comparative financial information for June 30, 2015)

NOTE 1 - ORGANIZATION 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 was incorporated on July 21, 2004 to operate a Charter School pursuant to Article 56 of the Education Law of the State of New York. The School 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 the School’s charter expiring on June 30, 2019. 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 265 students in grades kindergarten through fifth during the 2015-2016 academic year.

The School shares space with a New York City public school beginning in August 2005. 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.

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)(1)(A)(ii). The School is subject to income taxes only on net unrelated business income. The School did not have net unrelated business income for the years ended June 30, 2016 and 2015.

The School’s accounting policy provides that a tax expense or benefit from an uncertain tax position may be recognized when it is more likely than not that the position will be sustained upon examination, including resolutions of any related appeals or litigation processes, based on the technical merits. The School has no uncertain tax position resulting in an accrual of tax expense or benefit.

IRS Forms 990 filed by the School are subject to examination by the Internal Revenue Service up to three years from the extended due date of each return. Forms 990 filed by the School are no longer subject to examination for the fiscal years ended June 30, 2012, and prior.

MANHATTAN CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016
(with comparative financial information for June 30, 2015)

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

Basis of Presentation

The School's financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. 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:

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. The Board of Trustees has designated \$1,285,000 for long-term educational planning, organizational growth or facilities planning.

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, 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, 2016 and 2015.

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.

MANHATTAN CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016
(with comparative financial information for June 30, 2015)

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

Revenue and Support (Continued)

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.

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

The School considers all highly liquid financial 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 in non-investment accounts exceeded the FDIC insured levels of \$250,000 per institution at various times during the year. At June 30, 2016, cash balances exceeded insured levels by approximately \$2,983,000. The School believes that there is little risk in any losses and has not experienced any losses in such accounts.

Property and Equipment

Purchased property and equipment are recorded at cost. Property and equipment acquired with certain government funding are recorded as expenses pursuant to the terms of the contract, in which ownership of such property and equipment is retained by the funding source. 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 | 3 and 5 years |
| Leasehold Improvements | Useful life or related lease |
| Software | 3 years |

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.

MANHATTAN CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016
(with comparative financial information for June 30, 2015)

NOTE 1 - ORGANIZATION 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 statements of activities or by functional category in the statement of functional expenses. Accordingly, such information should be read in conjunction with the School's 2015 financial statements from which the summarized information was derived.

NOTE 2 - INVESTMENTS

Investments held by the School consist of the following at June 30, 2016:

| | <u>Cost Basis</u> | <u>Market Value</u> |
|-------------------------|---------------------|---------------------|
| Unrestricted: | | |
| Certificates of Deposit | \$ 1,285,000 | \$ 1,286,697 |
| Money Market | <u>7,000</u> | <u>7,000</u> |
| | <u>\$ 1,292,000</u> | <u>\$ 1,293,697</u> |

Investments held by the School consist of the following at June 30, 2015:

| | <u>Cost Basis</u> | <u>Market Value</u> |
|-------------------------|---------------------|---------------------|
| Unrestricted: | | |
| Certificates of Deposit | \$ 1,500,000 | \$ 1,503,884 |
| Money Market | <u>10,118</u> | <u>10,118</u> |
| | <u>\$ 1,510,118</u> | <u>\$ 1,514,002</u> |

Investment income consist of the following for the years ended June 30,:

| | <u>2016</u> | <u>2015</u> |
|---------------------------------------|-----------------|------------------|
| Interest | \$ 7,928 | \$ 9,993 |
| Unrealized (loss) gain on investments | <u>(955)</u> | <u>2,628</u> |
| | <u>\$ 6,973</u> | <u>\$ 12,621</u> |

MANHATTAN CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016
(with comparative financial information for June 30, 2015)

NOTE 3 - FAIR VALUE MEASUREMENTS

FASB ASC 820-10, Fair Value Measurements, establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under FASB ASC 820-10 are described as follows:

- Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the plan has the ability to access.
- Level 2 – Inputs other than quoted prices included in level 1 that are observable for the asset or liability, either directly or indirectly including inputs in markets that are not considered to be active.
- Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The primary uses of fair value measures in the School's financial statements are:

- initial measurement of noncash gifts, including gifts of investment assets and unconditional promises to give.
- recurring measurement of investments.

The School's investment at June 30, 2016 and 2015 consists of Certificates of Deposit and a Money Market account, combined totaling \$1,293,697 and \$1,514,002, respectively. Both are classified as level 1 in the fair value hierarchy.

NOTE 4 - GRANTS AND CONTRACTS RECEIVABLE

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

MANHATTAN CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016
(with comparative financial information for June 30, 2015)

NOTE 5 - PROPERTY AND EQUIPMENT

Property and equipment consist of the following as of June 30,:

| | 2016 | 2015 |
|---|------------|------------|
| Furniture and fixtures | \$ 91,366 | \$ 91,366 |
| Computers and equipment | 485,781 | 375,060 |
| Leasehold Improvements | 57,278 | 57,278 |
| Software | 14,325 | 13,050 |
| | 648,750 | 536,754 |
| Less: Accumulated depreciation and amortization | (460,392) | (413,274) |
| | \$ 188,358 | \$ 123,480 |

Depreciation and amortization expense was \$47,118 and \$53,447 for the years ended June 30, 2016 and 2015, respectively.

NOTE 6 - 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.

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 - 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.

MANHATTAN CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016
(with comparative financial information for June 30, 2015)

NOTE 9 - DUE FROM RELATED PARTY

The School is an affiliate of Manhattan Charter School II (“MCS II”), a New York State, not-for-profit corporation who both share common management and board members. For operational efficiency and purchasing power, the School shares certain expenses with MCS II. Balance due from MCS II at June 30, 2016 and 2015 was \$122,468 and \$163,514, respectively. For the years ended June 30, 2016 and 2015, the School charged MCS II \$517,069 and \$484,743 respectively, for expenses paid on behalf of MCS II.

NOTE 10 - RETIREMENT PLAN

The School maintains a retirement plan qualified under the Internal Revenue Code 403(b) for the benefit of its eligible employees. Under the plan, the School provided matching contributions of 4% to the plan. The amount charged to operations for fees and matching contributions to the plan was \$79,927 and \$109,313 for the years ended June 30, 2016 and 2015, respectively.

NOTE 11 - SUBSEQUENT EVENTS

In preparing these financial statements, the School has evaluated events and transactions for potential recognition or disclosure through October 7, 2016, the date the financial statements were available to be issued.

Manhattan Charter School and Manhattan Charter School II merged into a single not-for-profit legal entity under Manhattan Charter School II, which serves as the sole surviving education 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. Manhattan Charter School 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. Manhattan Charter School was dissolved in conjunction with this merger.

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 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, 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 School (the "School"), which comprise the statement of financial position as of June 30, 2016, 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 October 7, 2016.

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 School'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.

TO THE BOARD OF TRUSTEES OF
MANHATTAN CHARTER SCHOOL

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.


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

New York, New York
October 7, 2016

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

October 7, 2016

To the Audit Committee of the Board of Trustees of
Manhattan Charter School

We have audited the financial statements of Manhattan Charter School (the "School") for the year ended June 30, 2016, and have issued our report thereon dated October 7, 2016. Professional standards require that we provide you with the following information related to our audit.

Our Responsibilities under U.S. Generally Accepted Auditing Standards and Government Auditing Standards

As stated in our engagement letter dated March 10, 2016, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

As part of our audit, we will consider the internal control of Manhattan Charter School. Such considerations are solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we will perform tests of Manhattan Charter School's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests is not to provide an opinion on compliance with such provisions.

Planned Scope and Timing of the Audit

We performed our audit according to the plan previously communicated to you prior to commencement of our audit field work.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Manhattan Charter School are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended June 30, 2016. We noted no transactions entered into by the School during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements are as follows:

- Collectability of grants and contracts receivables
- Useful lives of fixed assets
- Allocation of costs for the statement of functional expenses

We evaluated the key factors and assumptions used to develop the above estimates in determining that it was reasonable in relation to the financial statement taken as a whole. The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 7, 2016.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the School's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the School's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

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

Very truly yours,


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

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

October 7, 2016

To the Board of Trustees and Management of
Manhattan Charter School
100 Attorney Street
New York, NY 10002

In planning and performing our audit of the financial statements of Manhattan Charter School (the "School") as of and for the year ended June 30, 2016, 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 a 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 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 material weaknesses. 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.

This communication 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.

We appreciate your cooperation and the assistance we received during the course of our audit.


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

New York, New York
October 7, 2016