

MANHATTAN CHARTER SCHOOL II

FINANCIAL STATEMENTS

JUNE 30, 2016

(with comparative financial information for June 30, 2015)

MANHATTAN CHARTER SCHOOL II  
FINANCIAL STATEMENTS  
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FRUCHTER ROSEN & COMPANY, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

156 WEST 56<sup>TH</sup> STREET

NEW YORK, NEW YORK 10019

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TEL: (212) 957-3600

FAX: (212) 957-3696

INDEPENDENT AUDITORS' REPORT

TO THE BOARD OF TRUSTEES OF  
MANHATTAN CHARTER SCHOOL II

***Report on the Financial Statements***

We have audited the accompanying financial statements of Manhattan Charter School II (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 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 II  
STATEMENTS OF FINANCIAL POSITION  
JUNE 30, 2016  
(with comparative information for June 30, 2015)

	2016	2015
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 1,150,165	\$ 925,977
Grants and contracts receivable	75,802	16,214
Prepaid expenses and other current assets	32,528	56,581
Total current assets	1,258,495	998,772
Property and equipment, net of accumulated depreciation and amortization of \$215,516 and \$152,664, respectively	162,820	162,363
Restricted cash	75,466	75,239
<b>TOTAL ASSETS</b>	<b>\$ 1,496,781</b>	<b>\$ 1,236,374</b>
 <b>LIABILITIES AND UNRESTRICTED NET ASSETS</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 60,822	\$ 43,826
Accrued payroll and payroll taxes	265,767	276,665
Due to related party	122,468	163,514
Refundable advances	5,329	4,533
Total current liabilities	454,386	488,538
Unrestricted net assets	1,042,395	747,836
<b>TOTAL LIABILITIES AND UNRESTRICTED NET ASSETS</b>	<b>\$ 1,496,781</b>	<b>\$ 1,236,374</b>

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

MANHATTAN CHARTER SCHOOL II  
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	\$ 3,151,216	\$ 2,596,683
Federal grants	110,269	96,629
State and city grants	17,469	14,428
Contributions and grants	-	59,650
Interest income	227	161
Total revenue and support	3,279,181	2,767,551
Expenses:		
Program services:		
Regular education	2,123,620	1,931,068
Special education	448,519	243,078
Extended day	36,505	33,272
Total program services	2,608,644	2,207,418
Supporting services:		
Management and general	356,470	339,074
Fundraising	19,508	23,133
Total expenses	2,984,622	2,569,625
Changes in unrestricted net assets	294,559	197,926
Unrestricted net assets - beginning of year	747,836	549,910
Unrestricted net assets - end of year	\$ 1,042,395	\$ 747,836

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

MANHATTAN CHARTER SCHOOL II  
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	\$ 1,447,158	\$ 314,226	\$ 16,197	\$ 1,777,581	\$ 215,208	\$ 14,586	\$ 2,007,375	\$ 1,792,624
Employee benefits and payroll taxes	281,455	61,113	3,150	345,718	41,854	2,837	390,409	329,943
Professional and accounting services	40,851	6,732	-	47,583	63,249	-	110,832	74,033
Professional development	61,368	10,742	134	72,244	14,493	790	87,527	41,883
Consultants	57,606	10,618	15,826	84,050	3,198	217	87,465	56,357
Leased equipment	2,059	447	23	2,529	307	21	2,857	584
Supplies and materials	20,202	3,829	107	24,138	3,690	93	27,921	26,885
Curriculum and classroom	96,113	16,568	-	112,681	-	-	112,681	101,206
Travel and conferences	10,027	1,656	1	11,684	9	1	11,694	7,780
Insurance	20,292	4,406	227	24,925	3,017	205	28,147	26,104
Postage and printing	1,046	227	12	1,285	155	11	1,451	2,271
Technology and communications	18,574	4,033	208	22,815	2,763	187	25,765	21,303
Dues and subscriptions	2,663	439	-	3,102	-	-	3,102	4,524
Food services	2,044	336	-	2,380	-	-	2,380	2,113
Student and staff recruiting and retention	13,607	2,604	77	16,288	1,027	70	17,385	20,292
Depreciation and amortization	45,311	9,839	507	55,657	6,738	457	62,852	60,872
Facility	3,244	704	36	3,984	483	33	4,500	820
Miscellaneous	-	-	-	-	279	-	279	31
<b>Total Expenses</b>	<b>\$ 2,123,620</b>	<b>\$ 448,519</b>	<b>\$ 36,505</b>	<b>\$ 2,608,644</b>	<b>\$ 356,470</b>	<b>\$ 19,508</b>	<b>\$ 2,984,622</b>	<b>\$ 2,569,625</b>

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

MANHATTAN CHARTER SCHOOL II  
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
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Changes in unrestricted net assets	\$ 294,559	\$ 197,926
Adjustments to reconcile changes in unrestricted net assets to net cash provided by operating activities:		
Depreciation and amortization	62,852	60,872
Changes in certain assets and liabilities:		
(Increase) Decrease in grants and contracts receivable	(59,588)	25,903
Decrease (Increase) in prepaid expenses and other current assets	24,053	(24,542)
(Decrease) Increase in due to related party	(41,046)	6,905
Increase in accounts payable and accrued expenses	16,996	3,243
(Decrease) Increase in accrued payroll and payroll taxes	(10,898)	91,958
Increase (Decrease) in refundable advances	796	(3,096)
	<u>287,724</u>	<u>359,169</u>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Increase in restricted cash	(227)	(25,161)
Purchases of property and equipment	(63,309)	(54,113)
	<u>(63,536)</u>	<u>(79,274)</u>
<b>NET CASH (USED IN) INVESTING ACTIVITIES</b>		
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	224,188	279,895
<b>CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR</b>	<u>925,977</u>	<u>646,082</u>
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<u>\$ 1,150,165</u>	<u>\$ 925,977</u>

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

MANHATTAN CHARTER SCHOOL II  
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 II (the "School") is a New York State, not-for-profit educational corporation that was incorporated 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 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 School is currently in the process of renewing its charter with its authorizer. 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. Classes commenced in September 2012 and the School provided education to approximately 203 students in kindergarten through fourth grade during the 2015-2016 academic year.

The School shares space with New York City public schools beginning in August 2012. 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 II  
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.

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 II  
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 may exceed the FDIC insured levels of \$250,000 per institution at various times during the year. At June 30, 2016, cash balances exceeded insured limits by approximately \$975,000. 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. 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
Software	3 years
Leasehold improvements	Useful life or related lease

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 II  
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 - 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.

NOTE 3 - PROPERTY AND EQUIPMENT

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

	2016	2015
Furniture and fixtures	\$ 68,915	\$ 51,566
Computers and equipment	188,772	142,812
Software	3,690	3,690
Leasehold Improvements	116,959	116,959
	378,336	315,027
Less: Accumulated depreciation and amortization	(215,516)	(152,664)
	\$ 162,820	\$ 162,363

Depreciation and amortization expense was \$62,852 and \$60,872 for the years ended June 30, 2016 and 2015, respectively.

NOTE 4 - REVENUE CONCENTRATION

The School receives a substantial portion of its support and revenue from the New York City Department of Education. If the charter school laws were modified, reducing or eliminating these revenues, the School's finances could be materially adversely affected.

MANHATTAN CHARTER SCHOOL II  
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

(with comparative financial information for June 30, 2015)

NOTE 5 - 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 6 - FUNCTIONAL ALLOCATION OF EXPENSE

Directly identifiable expenses are charged to programs and supporting services. Expenses related to more than one function are charged to programs and supporting services on the basis of periodic time and expense studies. Management and general expense includes those expenses that are not directly identifiable with any other specific function, but provide for the overall support and direction of the School.

NOTE 7 - DUE TO RELATED PARTY

The School is an affiliate of Manhattan Charter School (“MCS”), 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 expenses with MCS. Balance due to MCS at June 30, 2016 and 2015 were \$122,468 and \$163,514, respectively. For the years ended June 30, 2016 and 2015, MCS charged the School \$517,069 and \$484,743, respectively, for shared expenses paid on their behalf.

NOTE 8 - RETIREMENT PLAN

The School maintains a retirement plan qualified under the Internal Revenue Code 403(b) for the benefit 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 \$50,501 and \$43,853 for the years ended June 30, 2016 and 2015, respectively.

NOTE 9 - 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 56<sup>TH</sup> STREET

NEW YORK, NEW YORK 10019

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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 II

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 II (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 II

***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 56<sup>TH</sup> STREET  
NEW YORK, NEW YORK 10019

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

October 7, 2016

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

We have audited the financial statements of Manhattan Charter School II (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 II. 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 II'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 II 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 II 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 56<sup>TH</sup> 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 II  
100 Attorney Street  
New York, NY 10002

In planning and performing our audit of the financial statements of Manhattan Charter School II (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 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 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