

Manhattan Charter Schools

Financial Statements

June 30, 2020 and 2019

Independent Auditors' Report

Board of Trustees
Manhattan Charter Schools

Report on the Financial Statements

We have audited the accompanying financial statements of Manhattan Charter Schools (the "School"), which comprise the statements of financial position as of June 30, 2020 and 2019, and the related statements of activities, functional expenses, and cash flows for the years 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 audits. We conducted our audits 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 entity'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 entity'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, 2020 and 2019, and the changes in its net assets and its cash flows for the years 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 schedules of activities and functional expenses by school on pages 17 through 19 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 20, 2020, 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 20, 2020

Manhattan Charter Schools

Statements of Financial Position

| | June 30, | |
|---|--------------|--------------|
| | 2020 | 2019 |
| ASSETS | | |
| Current Assets | | |
| Cash | \$ 6,032,462 | \$ 5,795,070 |
| Investments | 1,380,530 | 1,349,445 |
| Grants and contracts receivable | 309,458 | 160,112 |
| Prepaid expenses and other current assets | 172,450 | 111,727 |
| Total Current Assets | 7,894,900 | 7,416,354 |
| Property and equipment, net | 256,786 | 243,781 |
| Restricted cash | 149,965 | 149,317 |
| | \$ 8,301,651 | \$ 7,809,452 |
| LIABILITIES AND NET ASSETS | | |
| Current Liabilities | | |
| Accounts payable and accrued expenses | \$ 203,343 | \$ 259,950 |
| Accrued payroll and payroll taxes | 717,375 | 857,056 |
| Refundable advances | - | 4,010 |
| Total Current Liabilities | 920,718 | 1,121,016 |
| Net Assets | | |
| Without Donor Restrictions | | |
| Undesignated | 6,062,780 | 5,372,640 |
| Board designated | 1,315,000 | 1,310,000 |
| Total Net Assets Without Donor Restrictions | 7,377,780 | 6,682,640 |
| With donor restrictions | 3,153 | 5,796 |
| Total Net Assets | 7,380,933 | 6,688,436 |
| | \$ 8,301,651 | \$ 7,809,452 |

Manhattan Charter Schools

Statement of Activities
Year Ended June 30, 2020

| | <u>Without Donor Restrictions</u> | <u>With Donor Restrictions</u> | <u>Total</u> |
|---|---------------------------------------|------------------------------------|---------------------|
| OPERATING REVENUE | | | |
| State and local per pupil operating revenue | | | |
| General education | \$ 6,508,796 | \$ - | \$ 6,508,796 |
| Special education | 832,551 | - | 832,551 |
| Federal grants | 405,918 | - | 405,918 |
| State grants | <u>33,646</u> | - | <u>33,646</u> |
| Total Operating Revenue | <u>7,780,911</u> | <u>-</u> | <u>7,780,911</u> |
| EXPENSES | | | |
| Program Services | | | |
| Regular education | 4,848,929 | - | 4,848,929 |
| Special education | 1,260,839 | - | 1,260,839 |
| Extended day | <u>212,627</u> | <u>-</u> | <u>212,627</u> |
| Total Program Services | 6,322,395 | - | 6,322,395 |
| Supporting Services | | | |
| Management and general | 827,351 | - | 827,351 |
| Fundraising | <u>13,469</u> | <u>-</u> | <u>13,469</u> |
| Total Expenses | <u>7,163,215</u> | <u>-</u> | <u>7,163,215</u> |
| Surplus from Operations | <u>617,696</u> | <u>-</u> | <u>617,696</u> |
| SUPPORT AND OTHER REVENUE | | | |
| Contributions | 41,504 | - | 41,504 |
| Investment income, net | 33,297 | - | 33,297 |
| Net assets released from restrictions | <u>2,643</u> | <u>(2,643)</u> | <u>-</u> |
| Total Support and Other Revenue | <u>77,444</u> | <u>(2,643)</u> | <u>74,801</u> |
| Change in Net Assets | 695,140 | (2,643) | 692,497 |
| NET ASSETS | | | |
| Beginning of year | <u>6,682,640</u> | <u>5,796</u> | <u>6,688,436</u> |
| End of year | <u>\$ 7,377,780</u> | <u>\$ 3,153</u> | <u>\$ 7,380,933</u> |

Manhattan Charter Schools

Statement of Activities
Year Ended June 30, 2019

| | <u>Without Donor Restrictions</u> | <u>With Donor Restrictions</u> | <u>Total</u> |
|---|---------------------------------------|------------------------------------|---------------------|
| OPERATING REVENUE | | | |
| State and local per pupil operating revenue | | | |
| General education | \$ 6,549,327 | \$ - | \$ 6,549,327 |
| Special education | 852,530 | - | 852,530 |
| Federal grants | 379,546 | - | 379,546 |
| State grants | <u>38,928</u> | - | <u>38,928</u> |
| Total Operating Revenue | <u>7,820,331</u> | <u>-</u> | <u>7,820,331</u> |
| EXPENSES | | | |
| Program Services | | | |
| Regular education | 5,459,528 | - | 5,459,528 |
| Special education | 1,432,649 | - | 1,432,649 |
| Extended day | <u>287,395</u> | - | <u>287,395</u> |
| Total Program Services | 7,179,572 | - | 7,179,572 |
| Supporting Services | | | |
| Management and general | 783,902 | - | 783,902 |
| Fundraising | <u>14,599</u> | - | <u>14,599</u> |
| Total Expenses | <u>7,978,073</u> | <u>-</u> | <u>7,978,073</u> |
| Deficit from Operations | <u>(157,742)</u> | <u>-</u> | <u>(157,742)</u> |
| SUPPORT AND OTHER REVENUE | | | |
| Contributions | 25,800 | - | 25,800 |
| Investment income, net | 34,644 | - | 34,644 |
| Net assets released from restrictions | <u>27,324</u> | <u>(27,324)</u> | <u>-</u> |
| Total Support and Other Revenue | <u>87,768</u> | <u>(27,324)</u> | <u>60,444</u> |
| Change in Net Assets | (69,974) | (27,324) | (97,298) |
| NET ASSETS | | | |
| Beginning of year | <u>6,752,614</u> | <u>33,120</u> | <u>6,785,734</u> |
| End of year | <u>\$ 6,682,640</u> | <u>\$ 5,796</u> | <u>\$ 6,688,436</u> |

Manhattan Charter Schools

Statement of Functional Expenses
Year Ended June 30, 2020

| | No. of Positions | Program Services | | | Supporting Services | | | Total |
|---|------------------|---------------------|---------------------|-------------------|------------------------|------------------|---------------------|-------|
| | | Regular Education | Special Education | Extended Day | Management and General | Fundraising | Total | |
| Personnel Services Costs | | | | | | | | |
| Administrative staff personnel | 10 | \$ 412,343 | \$ 137,998 | \$ - | \$ 550,341 | \$ 9,863 | \$ 943,491 | |
| Instructional personnel | 51 | 2,811,596 | 674,200 | 18,404 | 3,504,200 | - | 3,504,200 | |
| Non-instructional personnel | 2 | 58,410 | 14,603 | - | 73,013 | - | 97,351 | |
| Total Salaries and Staff | 63 | 3,282,349 | 826,801 | 18,404 | 4,127,554 | 9,863 | 4,545,042 | |
| Employee benefits and payroll taxes | | | | | | | | |
| Professional and accounting services | | 705,344 | 177,963 | 3,975 | 887,282 | 2,135 | 976,939 | |
| Professional development | | 37,571 | 11,949 | 58 | 49,578 | 33 | 326,475 | |
| Consultants | | 104,112 | 33,155 | 127 | 137,394 | 387 | 140,454 | |
| Leased equipment | | 230,159 | 67,712 | 188,647 | 486,518 | 286 | 505,829 | |
| Supplies and materials | | 15,881 | 4,108 | 97 | 20,086 | 53 | 22,085 | |
| Curriculum and classroom | | 37,886 | 12,371 | 27 | 50,284 | 16 | 50,934 | |
| Travel and conferences | | 125,601 | 41,884 | - | 167,485 | - | 167,485 | |
| Insurance | | 8,336 | 2,762 | 2 | 11,100 | 1 | 11,128 | |
| Postage and printing | | 46,771 | 11,629 | 251 | 58,651 | 132 | 64,629 | |
| Technology and communications | | 14,321 | 3,707 | 88 | 18,116 | 49 | 19,919 | |
| Dues and subscriptions | | 72,905 | 18,198 | 397 | 91,500 | 211 | 100,806 | |
| Student and staff recruitment and retention | | 20,697 | 6,295 | 71 | 27,063 | 41 | 28,336 | |
| Depreciation and amortization | | 67,971 | 22,130 | 22 | 90,123 | 10 | 90,856 | |
| Facility | | 73,813 | 18,771 | 426 | 93,010 | 231 | 102,364 | |
| Miscellaneous | | 4,034 | 1,086 | 27 | 5,147 | 16 | 5,647 | |
| | | 1,178 | 318 | 8 | 1,504 | 5 | 4,287 | |
| Total Expenses | | \$ 4,848,929 | \$ 1,260,839 | \$ 212,627 | \$ 6,322,395 | \$ 13,469 | \$ 7,163,215 | |

Manhattan Charter Schools

Statement of Functional Expenses
Year Ended June 30, 2019

| | No. of Positions | Program Services | | | | Supporting Services | | |
|---|------------------|---------------------|---------------------|-------------------|---------------------|------------------------|------------------|---------------------|
| | | Regular Education | Special Education | Extended Day | Total | Management and General | Fundraising | Total |
| Personnel Services Costs | | | | | | | | |
| Administrative staff personnel | 11 | \$ 396,649 | \$ 133,999 | \$ - | \$ 530,648 | \$ 355,353 | \$ 9,669 | \$ 895,670 |
| Instructional personnel | 56 | 3,193,124 | 771,481 | 21,493 | 3,986,098 | - | - | 3,986,098 |
| Non-instructional personnel | 3 | 48,513 | 12,128 | - | 60,641 | 20,214 | - | 80,855 |
| Total Salaries and Staff | <u>70</u> | <u>3,638,286</u> | <u>917,608</u> | <u>21,493</u> | <u>4,577,387</u> | <u>375,567</u> | <u>9,669</u> | <u>4,962,623</u> |
| Employee benefits and payroll taxes | | 773,352 | 195,659 | 4,620 | 973,631 | 79,807 | 2,082 | 1,055,520 |
| Professional and accounting services | | 46,170 | 15,055 | 68 | 61,293 | 268,456 | 32 | 329,781 |
| Professional development | | 98,887 | 31,088 | 170 | 130,145 | 3,514 | 1,798 | 135,457 |
| Consultants | | 389,444 | 121,932 | 259,447 | 770,823 | 17,646 | 284 | 788,753 |
| Leased equipment | | 16,876 | 4,385 | 111 | 21,372 | 1,736 | 51 | 23,159 |
| Supplies and materials | | 45,891 | 14,727 | 75 | 60,693 | 5,684 | 45 | 66,422 |
| Curriculum and classroom | | 132,776 | 44,909 | - | 177,685 | 310 | - | 177,995 |
| Travel and conferences | | 13,323 | 4,464 | 3 | 17,790 | 51 | 1 | 17,842 |
| Insurance | | 46,201 | 11,499 | 260 | 57,960 | 4,775 | 116 | 62,851 |
| Postage and printing | | 3,986 | 1,045 | 27 | 5,058 | 410 | 13 | 5,481 |
| Technology and communications | | 79,318 | 19,971 | 465 | 99,754 | 8,189 | 210 | 108,153 |
| Dues and subscriptions | | 19,319 | 5,856 | 84 | 25,259 | 1,099 | 40 | 26,398 |
| Student and staff recruitment and retention | | 67,483 | 21,932 | 28 | 89,443 | 800 | 11 | 90,254 |
| Depreciation and amortization | | 80,874 | 20,540 | 490 | 101,904 | 8,342 | 222 | 110,468 |
| Facility | | 2,977 | 777 | 20 | 3,774 | 307 | 9 | 4,090 |
| Miscellaneous | | 4,365 | 1,202 | 34 | 5,601 | 7,209 | 16 | 12,826 |
| Total Expenses | | <u>\$ 5,459,528</u> | <u>\$ 1,432,649</u> | <u>\$ 287,395</u> | <u>\$ 7,179,572</u> | <u>\$ 783,902</u> | <u>\$ 14,599</u> | <u>\$ 7,978,073</u> |

Manhattan Charter Schools

Statements of Cash Flows

| | Year Ended June 30, | |
|---|---------------------|--------------|
| | 2020 | 2019 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Change in net assets | \$ 692,497 | \$ (97,298) |
| Adjustments to reconcile change in net assets to net cash from operating activities | | |
| Depreciation and amortization | 102,364 | 110,468 |
| Unrealized gain on investments | (4,846) | (4,402) |
| Changes in operating assets and liabilities | | |
| Grants and contracts receivable | (149,346) | 107,513 |
| Prepaid expenses and other current assets | (60,723) | (48,872) |
| Accounts payable and accrued expenses | (56,607) | 81,097 |
| Accrued payroll and payroll taxes | (139,681) | 15,476 |
| Refundable advances | (4,010) | (10,893) |
| Net Cash from Operating Activities | 379,648 | 153,089 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchases of property and equipment | (115,369) | (42,404) |
| Purchases of investments | (26,239) | (27,694) |
| Net Cash from Investing Activities | (141,608) | (70,098) |
| Net Change in Cash and Restricted Cash | 238,040 | 82,991 |
| CASH AND RESTRICTED CASH | | |
| Beginning of year | 5,944,387 | 5,861,396 |
| End of year | \$ 6,182,427 | \$ 5,944,387 |
| The following table provides a reconciliation of cash and restricted cash within the statements of financial position: | | |
| Cash | \$ 6,032,462 | \$ 5,795,070 |
| Restricted cash | 149,965 | 149,317 |
| | \$ 6,182,427 | \$ 5,944,387 |

Manhattan Charter Schools

Notes to Financial Statements
June 30, 2020 and 2019

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 Manhattan Charter School II's ("MCS II") amended and restated charter agreement (see below).

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 399 students in kindergarten through fifth grade during the 2019-2020 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 or services.

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, 2020 and 2019

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.

Adoption of New Accounting Policies

Recognition of Contributions

Effective July 1, 2019, the School adopted Accounting Standards Update ("ASU") 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This guidance provides a framework for evaluating whether contributions and grants should be accounted for as exchange transactions or as nonexchange transactions. Analysis of various provisions of this standard resulted in no significant changes in the way the School recognizes contributions and grants, and therefore no changes to the previously issued audited financial statements were required on a retrospective basis.

Restricted Cash

In November 2016, the Financial Accounting Standards Board issued ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. ASU 2016-18 requires significant changes regarding how restricted cash is classified and presented on the statement of cash flows. On July 1, 2019, the School adopted the new guidance regarding the presentation and classification of restricted cash. The guidance requires the School to 1) include restricted cash and restricted cash equivalents in the cash and cash equivalents balances on the statements of cash flows, 2) provide a reconciliation between the statements of financial position and the statements of cash flows when more than one line item for cash, cash equivalents, restricted cash, and restricted cash equivalents is presented on the statements of financial position, 3) eliminate the presentation of transfers between restricted cash and cash, and 4) include disclosures about the nature of the restrictions for material balances. Adoption of the ASU resulted in a change in the accounting for restricted cash on the statements of cash flows.

Manhattan Charter Schools

Notes to Financial Statements
June 30, 2020 and 2019

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

Net Asset Presentation

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

Net assets without donor restrictions - consist of resources available for the general support of the School's operations. Net assets without donor restrictions may be used at the discretion of the School's management and/or the Board of Trustees. As of June 30, 2020 and 2019, the Board of Trustees has designated \$1,315,000 and \$1,310,000 for long-term educational planning, organizational growth or facilities planning.

Net assets with donor restrictions – represents amounts restricted by donors for specific activities of the School or to be used at a future date. The School records contributions as net assets with donor restrictions 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, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

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 Valuation

Money market fund is reported using level 1 inputs from the fair value hierarchy as reported on the last business day of the fiscal year. Certificates of deposit are valued at the amounts deposited plus accrued interest, and are measured at estimated market value.

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.

Manhattan Charter Schools

Notes to Financial Statements
June 30, 2020 and 2019

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

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. 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, in which case such assets are expensed as incurred.

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 its fair value. There were no asset impairments for the years ended June 30, 2020 and 2019.

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 net assets with donor restrictions 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 net assets without donor restrictions. Contributions of assets other than cash are recorded at their estimated fair value at the date of donation.

Manhattan Charter Schools

Notes to Financial Statements
June 30, 2020 and 2019

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

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.

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, 2017.

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 20, 2020.

3. Investments

The School's investments at June 30, 2020 and 2019 consist of the following:

| | 2020 | | 2019 | |
|-------------------------|---------------------|---------------------|---------------------|---------------------|
| | Cost | Market | Cost | Market |
| Certificates of deposit | \$ 1,315,000 | \$ 1,332,126 | \$ 1,310,000 | \$ 1,319,726 |
| Money market fund | 48,404 | 48,404 | 29,719 | 29,719 |
| | <u>\$ 1,363,404</u> | <u>\$ 1,380,530</u> | <u>\$ 1,339,719</u> | <u>\$ 1,349,445</u> |

Net investment income consist of the following for the years ended June 30, 2020 and 2019:

| | 2020 | 2019 |
|--------------------------------|------------------|------------------|
| Interest | \$ 28,451 | \$ 30,242 |
| Unrealized gain on investments | 4,846 | 4,402 |
| | <u>\$ 33,297</u> | <u>\$ 34,644</u> |

4. Grants and Contracts Receivable

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

Manhattan Charter Schools

Notes to Financial Statements
June 30, 2020 and 2019

5. Property and Equipment

Property and equipment consists of the following at June 30:

| | 2020 | 2019 |
|--|--------------------|--------------------|
| Computers and equipment | \$ 985,482 | \$ 870,113 |
| Furniture and fixtures | 223,331 | 223,331 |
| Leasehold improvements | 180,662 | 180,662 |
| Software | 22,025 | 22,025 |
| | <u>1,411,500</u> | <u>1,296,131</u> |
| Accumulated depreciation and amortization | <u>(1,154,714)</u> | <u>(1,052,350)</u> |
| | <u>\$ 256,786</u> | <u>\$ 243,781</u> |

6. Liquidity and Availability of Financial Assets

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use within one year of the statement of financial position date, are comprised of the following at June 30:

| | | |
|---|---------------------|---------------------|
| Financial Assets at year end: | 2020 | 2019 |
| Cash | \$ 6,032,462 | \$ 5,795,070 |
| Investments | 1,380,530 | 1,349,445 |
| Grants and contracts receivable | 309,458 | 160,112 |
| Total Financial Assets | <u>7,722,450</u> | <u>7,304,627</u> |
| Less amounts unavailable for general expenditure: | | |
| Net assets with donor restrictions | 3,153 | 5,796 |
| Board designated net assets | 1,315,000 | 1,310,000 |
| | <u>1,318,153</u> | <u>1,315,796</u> |
| | <u>\$ 6,404,297</u> | <u>\$ 5,988,831</u> |

As part of the School's liquidity management plan, the status of grants and contracts receivable is monitored regularly and any excess cash is invested in highly liquid securities. The Board of Trustees has designated net assets without donor restrictions that could be drawn upon through board resolution and can be made available for current operations, unbudgeted expenses, and unanticipated loss in funding.

Manhattan Charter Schools

Notes to Financial Statements
June 30, 2020 and 2019

7. 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 years ended June 30, 2020 and 2019 amounted to \$112,249 and \$108,110.

8. 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, 2020 and 2019, approximately \$5,900,000 and \$5,700,000 of cash was maintained with an institution in excess of FDIC limits.

9. 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 years ended June 30, 2020 and 2019, the School received approximately 94% 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.

10. Net Assets with Donor Restrictions

Net assets with donor restrictions consist of the following at June 30:

| | <u>2020</u> | <u>2019</u> |
|---|-----------------|-----------------|
| Subject to expenditure for a specified purpose: | | |
| Musical education | <u>\$ 3,153</u> | <u>\$ 5,796</u> |

Net assets for the years ended June 30, 2020 and 2019, were released from donor restrictions by satisfying the purpose specified by donors as follows:

| | <u>2020</u> | <u>2019</u> |
|-----------------------------------|-----------------|------------------|
| Musical education | \$ 2,643 | \$ 23,324 |
| Training of teachers in JUMP Math | - | 4,000 |
| | <u>\$ 2,643</u> | <u>\$ 27,324</u> |

Manhattan Charter Schools

Notes to Financial Statements
June 30, 2020 and 2019

11. 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.

12. Risks and Uncertainties

The School's operations and financial performance may be affected by the recent COVID-19 outbreak which has spread globally and is expected to adversely affect economic conditions throughout the world. If the outbreak continues and conditions worsen, the School may experience a disruption in operations as well as a decline in revenue activities. Economic uncertainty is related to the potential reduction and/or delays in state and local per pupil operating revenue, shortfalls and variations in enrollment, and operational and other changes that could increase expenses. The outbreak may adversely affect the School's activities, financial condition, results of operations, and cash flows. Management is closely monitoring the impact of COVID-19 and believes the School is taking appropriate actions to mitigate the negative impact. However, management is unable to estimate the financial impact, if any, related to this matter.

Manhattan Charter Schools

Supplementary Information

June 30, 2020

Manhattan Charter Schools

Schedule of Activities by School
Year Ended June 30, 2020
(with summarized totals for the year ended June 30, 2019)

| | Manhattan Charter School | | | Manhattan Charter School II | | | Manhattan Charter Schools | | |
|---|----------------------------|-------------------------|--------------|-----------------------------|-------------------------|--------------|----------------------------|-------------------------|-------|
| | 2020 | | 2019 | 2020 | | 2019 | 2020 | | 2019 |
| | Without Donor Restrictions | With Donor Restrictions | Total | Without Donor Restrictions | With Donor Restrictions | Total | Without Donor Restrictions | With Donor Restrictions | Total |
| OPERATING REVENUE | | | | | | | | | |
| State and local per pupil operating revenue | | | | | | | | | |
| General education | \$ 4,053,421 | \$ - | \$ 4,053,421 | \$ 3,734,507 | \$ 2,455,375 | \$ 2,814,820 | \$ 6,508,796 | \$ 6,549,327 | |
| Special education | 503,084 | - | 503,084 | 467,269 | 329,467 | 385,261 | 832,551 | 852,530 | |
| Federal grants | 228,965 | - | 228,965 | 203,785 | 176,953 | 175,761 | 405,918 | 379,546 | |
| State grants | 20,386 | - | 20,386 | 20,609 | 13,260 | 18,319 | 33,646 | 38,928 | |
| Total Operating Revenue | 4,805,856 | - | 4,805,856 | 4,426,170 | 2,975,055 | 3,394,161 | 7,780,911 | 7,820,331 | |
| EXPENSES | | | | | | | | | |
| Program Services | | | | | | | | | |
| Regular education | 2,833,138 | - | 2,833,138 | 3,018,954 | 2,015,791 | 2,440,574 | 4,848,929 | 5,459,528 | |
| Special education | 785,767 | - | 785,767 | 855,513 | 475,072 | 577,136 | 1,260,839 | 1,432,649 | |
| Extended day | 134,737 | - | 134,737 | 170,719 | 77,890 | 116,678 | 212,627 | 287,395 | |
| Total Program Services | 3,753,642 | - | 3,753,642 | 4,045,186 | 2,568,753 | 3,134,386 | 6,322,395 | 7,179,572 | |
| Supporting Services | | | | | | | | | |
| Management and general | 442,774 | - | 442,774 | 397,704 | 384,577 | 386,198 | 827,351 | 783,902 | |
| Fundraising | 10,202 | - | 10,202 | 11,418 | 3,267 | 3,181 | 13,469 | 14,599 | |
| Total Expenses | 4,206,618 | - | 4,206,618 | 4,454,308 | 2,956,597 | 3,523,765 | 7,163,215 | 7,978,073 | |
| Surplus (Deficit) from Operations | 599,238 | - | 599,238 | (28,138) | 18,458 | (129,604) | 617,696 | (157,742) | |
| SUPPORT AND OTHER REVENUE | | | | | | | | | |
| Contributions | 41,504 | - | 41,504 | 25,800 | - | - | 41,504 | 25,800 | |
| Investment income, net | 33,090 | - | 33,090 | 34,416 | 207 | 228 | 33,297 | 34,644 | |
| Net assets released from restrictions | 2,643 | (2,643) | - | - | - | - | - | - | |
| Total Support and Other Revenue | 77,237 | (2,643) | 74,594 | 60,216 | 207 | 228 | 74,801 | 60,444 | |
| Change in Net Assets | 676,475 | (2,643) | 673,832 | 32,078 | 18,665 | (129,376) | 692,497 | (97,298) | |
| NET ASSETS | | | | | | | | | |
| Beginning of year | 5,237,579 | 2,643 | 5,240,222 | 5,203,144 | 1,445,061 | 1,577,590 | 6,688,436 | 6,785,734 | |
| End of year | 5,914,054 | - | 5,914,054 | 5,240,222 | 1,463,726 | 1,448,214 | 7,380,933 | 6,688,436 | |

Manhattan Charter Schools

Schedule of Functional Expenses - Manhattan Charter School
Year Ended June 30, 2020
(with summarized totals for the year ended June 30, 2019)

| | No. of Positions | 2020 | | | | 2019 | | | |
|---|------------------|---------------------|-------------------|-------------------|---------------------|------------------------|------------------|---------------------|---------------------|
| | | Program Services | | Total | Supporting Services | | Total | | |
| | | Regular Education | Special Education | | Extended Day | Management and General | | Fundraising | |
| Personnel Services Costs | | | | | | | | | |
| Administrative staff personnel | 5 | \$ 188,540 | \$ 62,411 | \$ - | \$ 250,951 | \$ 199,441 | \$ 7,397 | \$ 457,789 | \$ 437,630 |
| Instructional personnel | 32 | 1,623,052 | 428,201 | 12,904 | 2,064,157 | - | - | 2,064,157 | 2,230,143 |
| Non-instructional personnel | 2 | 58,410 | 14,603 | - | 73,013 | 24,338 | - | 97,351 | 68,855 |
| Total Salaries and Staff | 39 | 1,870,002 | 505,215 | 12,904 | 2,388,121 | 223,779 | 7,397 | 2,619,297 | 2,736,628 |
| Employee benefits and payroll taxes | | 408,701 | 110,418 | 2,820 | 521,939 | 48,908 | 1,617 | 572,464 | 598,538 |
| Professional and accounting services | | 34,449 | 10,895 | 58 | 45,402 | 141,153 | 33 | 186,588 | 156,917 |
| Professional development | | 56,871 | 17,935 | 101 | 74,907 | 1,768 | 373 | 77,048 | 74,378 |
| Consultants | | 176,840 | 55,571 | 117,829 | 350,240 | 8,959 | 193 | 359,392 | 485,734 |
| Leased equipment | | 11,586 | 3,130 | 80 | 14,796 | 1,387 | 46 | 16,229 | 16,229 |
| Supplies and materials | | 24,014 | 7,723 | 26 | 31,763 | 445 | 15 | 32,223 | 41,240 |
| Curriculum and classroom | | 79,882 | 26,443 | - | 106,325 | - | - | 106,325 | 105,739 |
| Travel and conferences | | 5,806 | 1,908 | 2 | 7,716 | 27 | 1 | 7,744 | 11,806 |
| Insurance | | 23,071 | 6,233 | 159 | 29,463 | 2,761 | 91 | 32,315 | 30,534 |
| Postage and printing | | 10,509 | 2,839 | 73 | 13,421 | 1,258 | 42 | 14,721 | 4,085 |
| Technology and communications | | 37,620 | 10,164 | 260 | 48,044 | 4,502 | 149 | 52,695 | 58,728 |
| Dues and subscriptions | | 10,293 | 2,781 | 71 | 13,145 | 1,232 | 41 | 14,418 | 14,909 |
| Student and staff recruitment and retention | | 32,131 | 10,636 | - | 42,767 | - | - | 42,767 | 44,744 |
| Depreciation and amortization | | 46,250 | 12,495 | 319 | 59,064 | 5,535 | 183 | 64,782 | 64,755 |
| Facility | | 3,935 | 1,063 | 27 | 5,025 | 471 | 16 | 5,512 | 2,967 |
| Miscellaneous | | 1,178 | 318 | 8 | 1,504 | 589 | 5 | 2,098 | 6,377 |
| Total Expenses | | \$ 2,833,138 | \$ 785,767 | \$ 134,737 | \$ 3,753,642 | \$ 442,774 | \$ 10,202 | \$ 4,206,618 | \$ 4,454,308 |

Manhattan Charter Schools

Schedule of Functional Expenses - Manhattan Charter School III
Year Ended June 30, 2020
(with summarized totals for the year ended June 30, 2019)

| | No. of Positions | 2020 | | | | | 2019 | | |
|---|------------------|-------------------|-------------------|--------------|--------------|------------------------|---------------------|--------------|--------------|
| | | Program Services | | | | | Supporting Services | | |
| | | Regular Education | Special Education | Extended Day | Total | Management and General | Fundraising | Total | |
| Personnel Services Costs | | | | | | | | | |
| Administrative staff personnel | 5 | \$ 223,803 | \$ 75,587 | \$ - | \$ 299,390 | \$ 183,846 | \$ 2,466 | \$ 485,702 | \$ 458,040 |
| Instructional personnel | 19 | 1,188,544 | 245,999 | 5,500 | 1,440,043 | - | - | 1,440,043 | 1,755,955 |
| Non-instructional personnel | - | - | - | - | - | - | - | - | 12,000 |
| Total Salaries and Staff | 24 | 1,412,347 | 321,586 | 5,500 | 1,739,433 | 183,846 | 2,466 | 1,925,745 | 2,225,995 |
| Employee benefits and payroll taxes | | 296,643 | 67,545 | 1,155 | 365,343 | 38,614 | 518 | 404,475 | 456,982 |
| Professional and accounting services | | 3,122 | 1,054 | - | 4,176 | 135,711 | - | 139,887 | 172,864 |
| Professional development | | 47,241 | 15,220 | 26 | 62,487 | 905 | 14 | 63,406 | 61,079 |
| Consultants | | 53,319 | 12,141 | 70,818 | 136,278 | 10,066 | 93 | 146,437 | 303,019 |
| Leased equipment | | 4,295 | 978 | 17 | 5,290 | 559 | 7 | 5,856 | 6,930 |
| Supplies and materials | | 13,872 | 4,648 | 1 | 18,521 | 189 | 1 | 18,711 | 25,182 |
| Curriculum and classroom | | 45,719 | 15,441 | - | 61,160 | - | - | 61,160 | 72,256 |
| Travel and conferences | | 2,530 | 854 | - | 3,384 | - | - | 3,384 | 6,036 |
| Insurance | | 23,700 | 5,396 | 92 | 29,188 | 3,085 | 41 | 32,314 | 32,317 |
| Postage and printing | | 3,812 | 868 | 15 | 4,695 | 496 | 7 | 5,198 | 1,396 |
| Technology and communications | | 35,285 | 8,034 | 137 | 43,456 | 4,593 | 62 | 48,111 | 49,425 |
| Dues and subscriptions | | 10,404 | 3,514 | - | 13,918 | - | - | 13,918 | 11,489 |
| Student and staff recruitment and retention | | 35,840 | 11,494 | 22 | 47,356 | 723 | 10 | 48,089 | 45,510 |
| Depreciation and amortization | | 27,563 | 6,276 | 107 | 33,946 | 3,588 | 48 | 37,582 | 45,713 |
| Facility | | 99 | 23 | - | 122 | 13 | - | 135 | 1,123 |
| Miscellaneous | | - | - | - | - | 2,189 | - | 2,189 | 6,449 |
| Total Expenses | | \$ 2,015,791 | \$ 475,072 | \$ 77,890 | \$ 2,568,753 | \$ 384,577 | \$ 3,267 | \$ 2,956,597 | \$ 3,523,765 |



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, 2020, 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 20, 2020.

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 20, 2020