

Zeta Charter Schools - New York City

Financial Statements and
Uniform Guidance Schedules
Together with Independent Auditors' Reports

June 30, 2019

Zeta Charter Schools - New York City
Financial Statements and
Uniform Guidance Schedules
Together With Independent Auditors' Report

June 30, 2019

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Independent Auditors' Report

Board of Trustees
Zeta Charter Schools - New York City

Report on the Financial Statements

We have audited the accompanying financial statements of Zeta Charter Schools - New York City (the "School"), which comprise the statement of financial position as of June 30, 2019, and the related statements of activities, functional expenses, and cash flows for the period from January 2, 2018 (inception) to June 30, 2019, 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 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, 2019, and the change in its net assets and its cash flows for the period from January 2, 2018 (inception) to June 30, 2019 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 functional expenses by school as of and for the period from January 2, 2018 (inception) to June 30, 2019 on pages 14 to 16 are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying schedule of expenditures of federal awards on page 17 as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"), 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 October 25, 2019, 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

Zeta Charter Schools - New York City

Statement of Financial Position June 30, 2019

ASSETS

Current Assets

Cash and cash equivalents	\$ 1,035,745
Grants and contracts receivable	858,043
Prepaid expenses	<u>95,507</u>
Total Current Assets	1,989,295

Property and equipment, net	373,204
Restricted cash	<u>100,061</u>

\$ 2,462,560

LIABILITIES AND NET ASSETS

Current Liabilities

Accounts payable and accrued expenses	\$ 131,863
Accrued payroll and payroll taxes	186,293
Refundable advances	20,420
Deferred rent, current portion	189,599
Due to related party	<u>2,127,837</u>
Total Current Liabilities	2,656,012

Deferred rent	<u>378,190</u>
Total Liabilities	3,034,202

Net assets (deficit), without donor restrictions	<u>(571,642)</u>
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\$ 2,462,560

Zeta Charter Schools - New York City

Statement of Activities

Period from January 2, 2018 (Inception) to June 30, 2019

OPERATING REVENUE

State and Local Per Pupil Operating Revenue

General education	\$ 5,021,965
Special education	714,943
Facilities	1,457,877
Federal grants	1,720,132
Federal IDEA and E-rate	142,778
State and city grants	<u>494,636</u>
Total Operating Revenue	<u>9,552,331</u>

EXPENSES

Program Services

Regular education	7,448,885
Special education	<u>1,900,961</u>
Total Program Services	9,349,846

Supporting Services

Management and general	1,084,088
Fundraising	<u>44,010</u>
Total Expenses	<u>10,477,944</u>

(Deficit) from Operations (925,613)

SUPPORT AND OTHER REVENUE

Contributions	341,205
In-kind donations	11,990
Other income	<u>776</u>
Total Support and Other Revenue	<u>353,971</u>

Change in Net Assets (571,642)

NET ASSETS (DEFICIT)

Beginning of period	<u>-</u>
End of period	<u>\$ (571,642)</u>

See notes to financial statements

Zeta Charter Schools - New York City

Statement of Functional Expenses Period from January 2, 2018 (Inception) to June 30, 2019

	No. of Positions	Program Services			Supporting Services		Total
		General Education	Special Education	Total	Management and General	Fundraising	
Personnel Services Costs							
Administrative staff personnel	10	\$ 803,860	\$ 169,854	\$ 973,714	\$ 324,571	\$ -	\$ 1,298,285
Instructional personnel	33	1,651,039	490,329	2,141,368	1,026	-	2,142,394
Total Salaries and Staff	43	2,454,899	660,183	3,115,082	325,597	-	3,440,679
Fringe benefits and payroll taxes		534,482	143,448	677,930	71,773	-	749,703
Retirement		34,589	9,518	44,107	3,568	-	47,675
Management company fees		680,036	142,679	822,715	181,208	44,010	1,047,933
Legal services		2,501	684	3,185	341	-	3,526
Accounting/audit services		-	-	-	229,204	-	229,204
Other purchased/professional/consulting services		18,175	11,318	29,493	14,312	-	43,805
Building and land rent/lease		1,717,780	471,212	2,188,992	181,963	-	2,370,955
Supplies/materials		518,535	118,005	636,540	-	-	636,540
Equipment/furnishings		2,506	695	3,201	294	-	3,495
Staff development		93,650	21,752	115,402	4,023	-	119,425
Marketing/recruitment		691,587	147,396	838,983	19,389	-	858,372
Technology		138,834	35,343	174,177	16,873	-	191,050
Food service		213,477	44,781	258,258	-	-	258,258
Student services		46,269	11,262	57,531	2,686	-	60,217
Office expense		167,261	46,101	213,362	17,493	-	230,855
Depreciation		124,765	34,161	158,926	12,990	-	171,916
Other		9,539	2,423	11,962	2,374	-	14,336
Total Expenses		<u>\$ 7,448,885</u>	<u>\$ 1,900,961</u>	<u>\$ 9,349,846</u>	<u>\$ 1,084,088</u>	<u>\$ 44,010</u>	<u>\$ 10,477,944</u>

Zeta Charter Schools - New York City

Statement of Cash Flows

Period from January 2, 2018 (Inception) to June 30, 2019

CASH FLOWS FROM OPERATING ACTIVITIES

Change in net assets	\$ (571,642)
Adjustments to reconcile change in net assets to net cash from operating activities	
Depreciation	171,916
Deferred rent	567,789
Changes in operating assets and liabilities	
Grants and contracts receivable	(858,043)
Prepaid expenses	(95,507)
Accounts payable and accrued expenses	131,863
Accrued payroll and payroll taxes	186,293
Refundable advances	20,420
Due to related party	<u>2,127,837</u>
Net Cash from Operating Activities	<u>1,680,926</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Purchases of property and equipment	(545,120)
Restricted cash	<u>(100,061)</u>
Net Cash from Investing Activities	<u>(645,181)</u>

Net Change in Cash and Cash Equivalents	1,035,745
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CASH AND CASH EQUIVALENTS

Beginning of period	<u>-</u>
End of period	<u>\$ 1,035,745</u>

Zeta Charter Schools - New York City

Notes to Financial Statements

June 30, 2019

1. Organization and Tax Status

Zeta Charter Schools – New York City (the "School") is a New York State, not-for-profit educational corporation that was incorporated on January 2, 2018 to operate charter schools pursuant to Article 56 of the Education Law of the State of New York. The School was granted a provisional charter on January 2, 2018 to operate Zeta Charter Schools – Inwood 1 ("Inwood 1") and Zeta Charter Schools – Bronx 1 ("Bronx 1"), 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"). The charter will expire on July 21, 2023. The School's mission is to build and sustain high-performing schools that forge thriving communities of lifelong learners, problem solvers, and innovators. Classes for Bronx 1 and Inwood 1 commenced in the fall of 2018. The School provided education to approximately 317 students from kindergarten through first grade during the 2018-2019 academic year.

On June 6, 2019, the Board of Regents approved an amendment of the original charter to operate Zeta Charter School – New York City 3 ("NYC 3") and Zeta Charter School – New York City 4 ("NYC 4"). The School was granted a provisional charter on June 6, 2019 for NYC 3 and NYC 4, valid for a term of five years and renewable upon expiration by the Board of Regents. The charter will expire in June 2024. NYC 3 and NYC 4 are expected to open in the fall of 2020.

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.

2. Summary of Significant Accounting Policies

Basis of Presentation and Use of Estimates

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"), which requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Net Assets Presentation

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

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.

Zeta Charter Schools - New York City

Notes to Financial Statements

June 30, 2019

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

Net Assets Presentation (continued)

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 statement of activities as net assets released from restrictions. The School had no net assets with donor restrictions at June 30, 2019.

Cash and Cash Equivalents

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

Restricted Cash

Under the provisions of its charter, the School established a reserve fund to cover debts in the event of the School's dissolution.

Property and Equipment

The School follows the practice of capitalizing all expenditures for property and equipment with costs in excess of \$5,000 and a useful life in excess of one year. 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 is recognized on the straight-line method over the estimated useful lives of such assets as follows:

Computers & equipment	3 years
Furniture and fixtures	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 period from January 2, 2018 (inception) to June 30, 2019.

Zeta Charter Schools - New York City

Notes to Financial Statements

June 30, 2019

2. 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.

Deferred Rent

The School records its rent in accordance with U.S. GAAP whereby all rental payments, including fixed rent increases, are recognized on a straight-line basis as an offset to rent expense. The difference between the straight-line rent expense and the required lease payments, as well as any unamortized lease incentives, is reflected in deferred rent in the accompanying statement of financial position.

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 support with donor restrictions if they are received with donor stipulations. Donor restricted contributions and grants that are made to support the School's current period activities are recorded as revenue without donor restrictions. Contributions of assets other than cash are recorded at their estimated fair value at the date of donation.

Donated Services

The School recognizes contributions of services if they create or enhance nonfinancial assets, require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by the School, and are measurable.

Two entities provided legal services to the School at no charge. The value of these services meets the criteria for recognition in the financial statements and was recorded at a fair value of \$6,550. The value of these services is allocated to management and general services in the accompanying statement of activities and functional expenses. In addition, one entity provided tutoring services to the School at no charge. The value of these services meets the criteria for recognition in the financial statements and was recorded at a fair value of \$5,440. The value of these services is allocated to program services in the accompanying statement of activities and functional expenses. Total donated services for the period from January 2, 2018 (inception) to June 30, 2018 was \$11,990.

Marketing and Recruitment

Marketing and recruitment costs are expensed as incurred. Marketing and recruitment expense for the period from January 2, 2018 (inception) to June 30, 2019 was \$858,372.

Zeta Charter Schools - New York City

Notes to Financial Statements

June 30, 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. All returns filed by the School are subject to examinations by the applicable taxing authorities.

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 October 25, 2019.

3. 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. Management has assessed the need for an allowance and has determined that such an allowance is not necessary.

4. Related Party Transactions (not disclosed elsewhere)

The School is affiliated with Zeta Charter Schools, Inc. (the "Network"), a Delaware non-stock corporation, by common management.

The School entered into an Academic and Business Service Agreement (the "Agreement") with the Network on June 22, 2018, to provide the School with educational management and operational services. The Agreement automatically renews for four consecutive one year periods after the initial one-year term ending June 30, 2019. Pursuant to the Agreement, the Network is to select and implement educational programs, coaching and professional development to leadership, manage the School's business administration and support the Board of Trustees in all governance issues. As compensation to the Network for these services, starting July 1, 2018 the School paid an amount equal to 15% of certain revenue specified in the Agreement. For the period from January 2, 2018 (inception) to June 30, 2019, the School incurred \$1,047,933 in management fees to the Network.

Zeta Charter Schools - New York City

Notes to Financial Statements June 30, 2019

4. Related Party Transactions (not disclosed elsewhere) (*continued*)

For operating efficiency and purchasing power, the School shares certain expenses with the Network. The School also reimburses the Network for personnel service costs, fringe benefits and payroll taxes. The School incurred \$1,894,952 of net operating expenses, excluding payroll and payroll related expenses, paid by the Network on behalf of the School. Net balance due to the Network was \$2,127,837 at June 30, 2019. The School repaid the Network approximately \$747,000 prior to the issuance of these financial statements.

During the period from January 2, 2018 (inception) to June 30, 2019, the Network granted \$331,205 to the School.

On July 23, 2018, the School entered into two three-year subleases for school facilities with the Network (see Note 11). The School has the option to extend the leases for an additional two years in the event that the Network extends its lease for the same space. Lease payments commenced August 1, 2018 and will expire on July 30, 2021.

5. Property and Equipment

Property and equipment consists of the following at June 30, 2019:

Furnitures and fixtures	\$ 137,166
Computers and equipment	<u>407,954</u>
	545,120
Accumulated depreciation	<u>(171,916)</u>
	<u><u>\$ 373,204</u></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, 2019:

Cash and cash equivalents	\$ 1,035,745
Grants and contracts receivable	<u>858,043</u>
	<u><u>\$ 1,893,788</u></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 instruments.

Zeta Charter Schools - New York City

Notes to Financial Statements

June 30, 2019

7. Employment Contract

The Network entered into a co-employment arrangement with TriNet Group, Inc. ("TriNet"), a professional employment organization, effective September 20, 2017. Under the co-employment arrangement, TriNet assumes certain employment responsibilities, including the payment and reporting of employees' wages and payroll taxes. The Network charges payroll and payroll-related expenses on a monthly basis to the School.

8. 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, it is at the school's discretion to determine the employee match each year. Employer match for the period from January 2, 2018 (inception) to June 30, 2019 amounted to \$44,057.

9. 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, 2019, approximately \$871,000 of cash was maintained with an institution in excess of FDIC limits.

10. 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 period from January 2, 2018 (inception) to June 30, 2019, the School received approximately 73% of its 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.

11. Commitments

On July 23, 2018, the School entered into two three-year subleases for school facilities with the Network (see Note 4). The School has the option to extend the leases for an additional two years in the event that the Network extends its lease for the same space. Lease payments commenced August 1, 2018 and will expire on July 30, 2021.

Future minimum payments are as follows for the years ending June 30:

2020	\$ 2,353,606
2021	3,242,333
2022	<u>270,194</u>
	<u>\$ 5,866,133</u>

Zeta Charter Schools - New York City

Notes to Financial Statements

June 30, 2019

11. Commitments (*continued*)

The School recognizes rent expense on a straight-line basis over the terms of the leases. Rent expense in excess of payments is recorded as deferred rent in the accompanying statement of financial position. Rent expense for the period from January 2, 2018 (inception) to June 30, 2018 amounted to \$2,370,955.

12. 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.

Zeta Charter Schools - New York City

Supplementary Information

June 30, 2019

Zeta Charter Schools - New York City

Schedule of Activities by School

Period from January 2, 2018 (Inception) to June 30, 2019

	Inwood 1	Bronx 1	Total
OPERATING REVENUE			
State and local per pupil operating revenue			
General education	\$ 2,440,290	\$ 2,581,675	\$ 5,021,965
Special education	385,439	329,504	714,943
Facilities	708,561	749,316	1,457,877
Federal grants	748,374	971,758	1,720,132
Federal IDEA and E-Rate	67,505	75,273	142,778
State and city grants	247,085	247,551	494,636
Total Operating Revenue	<u>4,597,254</u>	<u>4,955,077</u>	<u>9,552,331</u>
EXPENSES			
Program Services			
Regular education	3,670,985	3,777,900	7,448,885
Special education	952,367	948,594	1,900,961
Total Program Services	4,623,352	4,726,494	9,349,846
Supporting Services			
Management and general	522,120	561,968	1,084,088
Fundraising	21,569	22,441	44,010
Total Expenses	<u>5,167,041</u>	<u>5,310,903</u>	<u>10,477,944</u>
Deficit from Operations	<u>(569,787)</u>	<u>(355,826)</u>	<u>(925,613)</u>
SUPPORT AND OTHER REVENUE			
Contributions	171,514	169,691	341,205
In-kind donations	8,715	3,275	11,990
Other income	216	560	776
Total Support and Other Revenue	<u>180,445</u>	<u>173,526</u>	<u>353,971</u>
Change in Net Assets	(389,342)	(182,300)	(571,642)
NET ASSETS (DEFICIT)			
Beginning of period	<u>-</u>	<u>-</u>	<u>-</u>
End of period	<u>\$ (389,342)</u>	<u>\$ (182,300)</u>	<u>\$ (571,642)</u>

See independent auditors' report

Zeta Charter Schools - New York City

Schedule of Functional Expenses - Inwood 1
Period from January 2, 2018 (Inception) to June 30, 2019

	No. of Positions	Program Services			Supporting Services		Total
		General Education	Special Education	Total	Management and General	Fundraising	
Personnel Services Costs							
Administrative staff personnel	5	\$ 390,975	\$ 83,281	\$ 474,256	\$ 158,085	\$ -	\$ 632,341
Instructional personnel	17	847,835	257,673	1,105,508	513	-	1,106,021
Total Salaries and Staff	<u>22</u>	<u>1,238,810</u>	<u>340,954</u>	<u>1,579,764</u>	<u>158,598</u>	<u>-</u>	<u>1,738,362</u>
Fringe benefits and payroll taxes		261,790	71,898	333,688	34,162	-	367,850
Retirement		16,894	4,770	21,664	1,659	-	23,323
Management company fees		331,997	71,207	403,204	88,808	21,569	513,581
Legal services		2,346	651	2,997	278	-	3,275
Accounting/audit services		-	-	-	114,602	-	114,602
Other purchased/professional/consulting services		9,937	4,998	14,935	7,231	-	22,166
Building and land rent/lease		801,778	225,816	1,027,594	81,046	-	1,108,640
Supplies/materials		270,494	58,711	329,205	-	-	329,205
Equipment/furnishings		2,346	662	3,008	230	-	3,238
Staff development		56,248	13,263	69,511	1,986	-	71,497
Marketing/recruitment		336,631	73,150	409,781	9,429	-	419,210
Technology		70,860	18,419	89,279	8,564	-	97,843
Food service		103,196	22,134	125,330	-	-	125,330
Student services		21,098	4,525	25,623	-	-	25,623
Office expense		92,665	26,096	118,761	9,377	-	128,138
Depreciation		48,654	13,737	62,391	4,777	-	67,168
Other		<u>5,241</u>	<u>1,376</u>	<u>6,617</u>	<u>1,373</u>	<u>-</u>	<u>7,990</u>
Total Expenses		<u>\$ 3,670,985</u>	<u>\$ 952,367</u>	<u>\$ 4,623,352</u>	<u>\$ 522,120</u>	<u>\$ 21,569</u>	<u>\$ 5,167,041</u>

Zeta Charter Schools - New York City

Schedule of Functional Expenses - Bronx 1
Period from January 2, 2018 (Inception) to June 30, 2019

	No. of Positions	Program Services			Supporting Services		Total
		General Education	Special Education	Total	Management and General	Fundraising	
Personnel Services Costs							
Administrative staff personnel	5	\$ 412,885	\$ 86,573	\$ 499,458	\$ 166,486	\$ -	\$ 665,944
Instructional personnel	16	803,204	232,656	1,035,860	513	-	1,036,373
Total Salaries and Staff	<u>21</u>	<u>1,216,089</u>	<u>319,229</u>	<u>1,535,318</u>	<u>166,999</u>	<u>-</u>	<u>1,702,317</u>
Fringe benefits and payroll taxes		272,692	71,550	344,242	37,611	-	381,853
Retirement		17,695	4,748	22,443	1,909	-	24,352
Management company fees		348,039	71,472	419,511	92,400	22,441	534,352
Legal services		155	33	188	63	-	251
Accounting/audit services		-	-	-	114,602	-	114,602
Other purchased/professional/consulting services		8,238	6,320	14,558	7,081	-	21,639
Building and land rent/lease		916,002	245,396	1,161,398	100,917	-	1,262,315
Supplies/materials		248,041	59,294	307,335	-	-	307,335
Equipment/furnishings		160	33	193	64	-	257
Staff development		37,402	8,489	45,891	2,037	-	47,928
Marketing/recruitment		354,956	74,246	429,202	9,960	-	439,162
Technology		67,974	16,924	84,898	8,309	-	93,207
Food service		110,281	22,647	132,928	-	-	132,928
Student services		25,171	6,737	31,908	2,686	-	34,594
Office expense		74,596	20,005	94,601	8,116	-	102,717
Depreciation		76,111	20,424	96,535	8,213	-	104,748
Other		<u>4,298</u>	<u>1,047</u>	<u>5,345</u>	<u>1,001</u>	<u>-</u>	<u>6,346</u>
Total Expenses		<u>\$ 3,777,900</u>	<u>\$ 948,594</u>	<u>\$ 4,726,494</u>	<u>\$ 561,968</u>	<u>\$ 22,441</u>	<u>\$ 5,310,903</u>

Zeta Charter Schools - New York City

Uniform Guidance Schedules and Reports

June 30, 2019

Zeta Charter Schools - New York City

Schedule of Expenditures of Federal Awards
Period from January 2, 2018 (inception) to June 30, 2019

Federal Grantor/Pass-through Grantor Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Provided to Subrecipients	Total Federal Expenditures
<u>U.S. Department of Education</u>				
Pass-through New York State				
Education Department:				
Title I Grants to Local Educational Agencies	84.010	0021195480	\$ -	\$ 81,236
Title I Grants to Local Educational Agencies	84.010	0021195485	-	119,179
			-	200,415
Supporting Effective Instruction State Grants (formerly Improving Teacher Quality State Grants)	84.367	0147195480	-	11,823
Supporting Effective Instruction State Grants (formerly Improving Teacher Quality State Grants)	84.367	0147195485	-	17,704
			-	29,527
Charter Schools	84.282	0089180155	-	335,698
Charter Schools	84.282	0089190155	-	251,454
Charter Schools	84.282	0089180156	-	486,964
Charter Schools	84.282	0089190156	-	253,932
			-	1,328,048
Total U.S. Department of Education			-	1,557,990
<u>U.S. Department of Agriculture</u>				
Pass-through New York State Education Department				
Child Nutrition Cluster:				
School Breakfast Program	10.553	N/A	-	42,758
National School Lunch Program	10.555	N/A	-	119,384
Total Child Nutrition Cluster			-	162,142
Total U.S. Department of Agriculture			-	162,142
Total Expenditures of Federal Awards			\$ -	\$ 1,720,132

See independent auditors' report and notes to schedule of expenditures of federal awards

Zeta Charter Schools - New York City

Notes to Schedule of Expenditures of Federal Awards
Period from January 2, 2018 (Inception) to June 30, 2019

1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") includes the federal award activity of Zeta Charter Schools - New York City (the "School") under programs of the federal government for the period from January 2, 2018 (inception) to June 30, 2019. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the School, it is not intended to and does not present the financial position, changes in net assets or cash flows of the School.

2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.

3. Indirect Cost Rate

The School has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

**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
Zeta Charter Schools - New York City**

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 Zeta Charter Schools - New York City (the "School"), which comprise the statement of financial position as of June 30, 2019, and the related statements of activities, functional expenses, and cash flows for the period from January 2, 2018 (inception) to June 30, 2019, and the related notes to the financial statements, and have issued our report thereon dated October 25, 2019.

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
October 25, 2019

**Report on Compliance for Each Major Federal Program and Report on Internal Control
Over Compliance Required by the Uniform Guidance**

Independent Auditors' Report

Board of Trustees
Zeta Charter Schools - New York City

Report on Compliance for Each Major Federal Program

We have audited Zeta Charter Schools - New York City's (the "School") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the School's major federal programs for the period from January 2, 2018 (inception) to June 30, 2019. The School's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the School's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the School's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the School's compliance.

Opinion on Each Major Federal Program

In our opinion, Zeta Charter Schools - New York City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the period from January 2, 2018 (inception) to June 30, 2019.

Report on Internal Control over Compliance

Management of the School is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the School's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the School's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

PKF O'Connor Davies, LLP

Zeta Charter Schools - New York City

Schedule of Findings and Questioned Costs Period from January 2, 2018 (inception) to June 30, 2019

Section I - Summary of Auditors' Results

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with U.S. GAAP:

Unmodified

Internal control over financial reporting:

Material weakness(es) identified?

_____ yes X no

Significant deficiency(ies) identified?

_____ yes X none reported

Noncompliance material to financial statements noted?

_____ yes X no

Federal Awards

Internal control over major federal programs:

Material weakness(es) identified?

_____ yes X no

Significant deficiency(ies) identified?

_____ yes X none reported

Type of auditors' report issued on compliance for major federal programs:

Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?

_____ yes X no

Identification of major federal programs:

CFDA Numbers
84.282

Name of Federal Programs or Clusters
Charter Schools

Dollar threshold used to distinguish between Type A and Type B programs:

\$750,000

Auditee qualified as low-risk auditee?

_____ yes X no

Section II – Financial Statement Findings

During our audit, we noted no material findings for the period from January 2, 2018 (inception) to June 30, 2019.

Section III – Federal Award Findings and Questioned Costs

During our audit, we noted no material instances of noncompliance and none of the costs tested which were reported in the federal financially assisted programs are questioned or recommended to be disallowed.

Section IV - Prior Period's Findings

There were no prior period audit findings.

Board of Trustees
Zeta Charter Schools - New York City

Auditors' Communication on Internal Control

In planning and performing our audit of the financial statements of Zeta Charter Schools - New York City (the "School") as of June 30, 2019 and for the period from January 2, 2018 (inception) to June 30, 2019, in accordance with auditing standards generally accepted in the United States of America, we considered the School's internal control over financial reporting ("internal control") as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control. Accordingly, we do not express an opinion on the effectiveness of the School's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

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

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

This communication is intended solely for the information and use of management, the audit committee, the Board of Trustees, 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.

PKF O'Connor Davies, LLP

Harrison, New York
October 25, 2019