

Manhattan Charter Schools

Financial Statements

June 30, 2023 and 2022

Independent Auditors' Report

Board of Trustees
Manhattan Charter Schools

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Manhattan Charter Schools (a nonprofit organization), which comprise the statements of financial position as of June 30, 2023 and 2022, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Manhattan Charter Schools as of June 30, 2023 and 2022, 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.

Basis for Opinion

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. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Manhattan Charter Schools and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Change in Accounting Policy

As discussed in Note 2 to the financial statements, Manhattan Charter Schools adopted Financial Accounting Standards Board ("FASB") Topic 842, *Leases*, which resulted in the recognition of a right of use asset and related lease liability effective July 1, 2022. Our opinion is not modified with respect to that matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Manhattan Charter Schools' ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Manhattan Charter Schools' internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Manhattan Charter Schools' ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedules of activities and functional expenses by school for the year ended June 30, 2023 on pages 19 through 21 are presented for purposes of additional analysis and are 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 4, 2023, on our consideration of Manhattan Charter Schools' 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 Manhattan Charter Schools 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 Manhattan Charter Schools internal control over financial reporting and compliance.

PKF O'Connor Davies, LLP

Harrison, New York
October 4, 2023

Manhattan Charter Schools

Statements of Financial Position

	June 30,	
	2023	2022
ASSETS		
Current Assets		
Cash	\$ 5,642,403	\$ 7,097,403
Investments	1,981,485	1,328,704
Grants and contracts receivable	953,810	514,877
Prepaid expenses and other current assets	124,805	157,643
Total Current Assets	8,702,503	9,098,627
Property and equipment, net	276,864	233,426
Right of use assets - operating lease, net	17,773	-
Restricted cash	150,142	150,825
	\$ 9,147,282	\$ 9,482,878
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable and accrued expenses	\$ 204,131	\$ 245,654
Accrued payroll and payroll taxes	542,013	664,426
Operating lease liabilities	16,678	-
Refundable advances	7,891	-
Total Current Liabilities	770,713	910,080
Operating lease liabilities, less current portion	1,095	-
Total Liabilities	771,808	910,080
Net Assets		
Without Donor Restrictions		
Undesignated	6,375,474	7,249,973
Board designated	2,000,000	1,320,000
Total Net Assets Without Donor Restrictions	8,375,474	8,569,973
With donor restrictions	-	2,825
Total Net Assets	8,375,474	8,572,798
	\$ 9,147,282	\$ 9,482,878

See notes to financial statements

Manhattan Charter Schools

Statement of Activities
Year Ended June 30, 2023

	Without Donor Restrictions	With Donor Restrictions	Total
OPERATING REVENUE			
State and local per pupil operating revenue			
General education	\$ 4,842,038	\$ -	\$ 4,842,038
Special education	735,549	-	735,549
Federal grants	706,989	-	706,989
Federal E-Rate and IDEA	175,166	-	175,166
State grants	<u>21,208</u>	-	<u>21,208</u>
Total Operating Revenue	<u>6,480,950</u>	<u>-</u>	<u>6,480,950</u>
EXPENSES			
Program Services			
Regular education	4,164,527	-	4,164,527
Special education	<u>1,526,191</u>	-	<u>1,526,191</u>
Total Program Services	5,690,718	-	5,690,718
Supporting Services			
Management and general	1,016,031	-	1,016,031
Fundraising	<u>76,102</u>	-	<u>76,102</u>
Total Expenses	<u>6,782,851</u>	<u>-</u>	<u>6,782,851</u>
Deficit from Operations	<u>(301,901)</u>	<u>-</u>	<u>(301,901)</u>
SUPPORT AND OTHER REVENUE			
Contributions	21,635	-	21,635
Investment income, net	77,950	-	77,950
Unrealized (loss) on investments	(18,515)	-	(18,515)
Other revenue	23,507	-	23,507
Net assets released from restrictions	<u>2,825</u>	<u>(2,825)</u>	<u>-</u>
Total Support and Other Revenue	<u>107,402</u>	<u>(2,825)</u>	<u>104,577</u>
Change in Net Assets	(194,499)	(2,825)	(197,324)
NET ASSETS			
Beginning of year	<u>8,569,973</u>	<u>2,825</u>	<u>8,572,798</u>
End of year	<u>\$ 8,375,474</u>	<u>\$ -</u>	<u>\$ 8,375,474</u>

Manhattan Charter Schools

Statement of Activities
Year Ended June 30, 2022

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
OPERATING REVENUE			
State and local per pupil operating revenue			
General education	\$ 5,290,716	\$ -	\$ 5,290,716
Special education	831,740	-	831,740
Federal grants	682,052	-	682,052
Federal E-Rate and IDEA	149,160	-	149,160
State grants	<u>29,147</u>	-	<u>29,147</u>
Total Operating Revenue	<u>6,982,815</u>	<u>-</u>	<u>6,982,815</u>
EXPENSES			
Program Services			
Regular education	4,519,951	-	4,519,951
Special education	<u>1,366,698</u>	-	<u>1,366,698</u>
Total Program Services	5,886,649	-	5,886,649
Supporting Services			
Management and general	723,711	-	723,711
Fundraising	<u>13,890</u>	-	<u>13,890</u>
Total Expenses	<u>6,624,250</u>	<u>-</u>	<u>6,624,250</u>
Surplus from Operations	<u>358,565</u>	<u>-</u>	<u>358,565</u>
SUPPORT AND OTHER REVENUE			
Contributions	23,108	13,680	36,788
Investment income, net	6,575	-	6,575
Other revenue	<u>14,008</u>	<u>(14,008)</u>	<u>-</u>
Total Support and Other Revenue	<u>43,691</u>	<u>(328)</u>	<u>43,363</u>
Change in Net Assets	402,256	(328)	401,928
NET ASSETS			
Beginning of year	<u>8,167,717</u>	<u>3,153</u>	<u>8,170,870</u>
End of year	<u>\$ 8,569,973</u>	<u>\$ 2,825</u>	<u>\$ 8,572,798</u>

Manhattan Charter Schools

Statement of Functional Expenses
Year Ended June 30, 2023

	No. of Positions	Program Services			Supporting Services		Total
		Regular Education	Special Education	Total	Management and General	Fundraising	
Personnel Services Costs							
Administrative staff personnel	10	\$ 500,963	\$ 240,674	\$ 741,637	\$ 530,762	\$ 56,796	\$ 1,329,195
Instructional personnel	41	2,137,095	680,334	2,817,429	-	-	2,817,429
Non-instructional personnel	<u>2</u>	<u>65,197</u>	<u>25,306</u>	<u>90,503</u>	-	-	<u>90,503</u>
Total Personnel Services Costs	<u>53</u>	<u>2,703,255</u>	<u>946,314</u>	<u>3,649,569</u>	530,762	56,796	4,237,127
Employee benefits and payroll taxes		497,272	168,104	665,376	102,949	10,973	779,298
Retirement		61,614	20,336	81,950	11,777	1,244	94,971
Legal services		-	-	-	6,804	-	6,804
Accounting and auditing services		-	-	-	296,403	-	296,403
Other professional and consulting services		207,028	100,304	307,332	2,360	249	309,941
Repairs and maintenance		989	346	1,335	228	25	1,588
Insurance		58,451	20,579	79,030	13,728	1,482	94,240
Supplies and materials		100,604	45,931	146,535	134	-	146,669
Equipment and furnishings		1,375	434	1,809	225	23	2,057
Staff development		97,250	43,383	140,633	2,210	238	143,081
Marketing and recruiting		151,480	73,047	224,527	-	-	224,527
Technology		124,122	44,160	168,282	28,759	3,104	200,145
Student service		73,381	33,465	106,846	-	-	106,846
Office expense		22,196	7,529	29,725	4,648	496	34,869
Depreciation and amortization		64,991	22,095	87,086	13,703	1,463	102,252
Miscellaneous		<u>519</u>	<u>164</u>	<u>683</u>	<u>1,341</u>	<u>9</u>	<u>2,033</u>
Total Expenses		<u>\$ 4,164,527</u>	<u>\$ 1,526,191</u>	<u>\$ 5,690,718</u>	<u>\$ 1,016,031</u>	<u>\$ 76,102</u>	<u>\$ 6,782,851</u>

Manhattan Charter Schools

Statement of Functional Expenses
Year Ended June 30, 2022

	No. of Positions	Program Services			Supporting Services		Total
		Regular Education	Special Education	Total	Management and General	Fundraising	
Personnel Services Costs							
Administrative staff personnel	11	\$ 613,729	\$ 244,998	\$ 858,727	\$ 322,514	\$ 10,312	\$ 1,191,553
Instructional personnel	42	2,385,767	636,005	3,021,772	-	-	3,021,772
Non-instructional personnel	<u>3</u>	<u>67,093</u>	<u>19,968</u>	<u>87,061</u>	<u>-</u>	<u>-</u>	<u>87,061</u>
Total Personnel Services Costs	<u>56</u>	3,066,589	900,971	3,967,560	322,514	10,312	4,300,386
Employee benefits and payroll taxes		563,034	159,336	722,370	62,343	1,971	786,684
Retirement		81,145	22,898	104,043	8,959	283	113,285
Legal services		-	-	-	8,254	-	8,254
Accounting and auditing services		-	-	-	280,773	-	280,773
Other professional and consulting services		157,789	63,754	221,543	3,092	104	224,739
Repairs and maintenance		4,582	1,382	5,964	541	17	6,522
Insurance		58,744	17,893	76,637	7,005	228	83,870
Supplies and materials		105,334	39,031	144,365	-	-	144,365
Equipment and furnishings		6,112	1,477	7,589	577	17	8,183
Staff development		112,712	39,876	152,588	1,336	43	153,967
Marketing and recruiting		64,876	26,215	91,091	-	-	91,091
Technology		137,042	41,941	178,983	16,421	537	195,941
Student service		55,517	21,523	77,040	-	-	77,040
Office expense		23,271	6,548	29,819	2,562	81	32,462
Depreciation and amortization		66,143	18,856	84,999	7,378	234	92,611
Miscellaneous		<u>17,061</u>	<u>4,997</u>	<u>22,058</u>	<u>1,956</u>	<u>63</u>	<u>24,077</u>
Total Expenses		<u>\$ 4,519,951</u>	<u>\$ 1,366,698</u>	<u>\$ 5,886,649</u>	<u>\$ 723,711</u>	<u>\$ 13,890</u>	<u>\$ 6,624,250</u>

Manhattan Charter Schools

Statements of Cash Flows

	Year Ended June 30,	
	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (197,324)	\$ 401,928
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation and amortization	102,252	92,611
Unrealized loss on investments	18,515	30
Amortization of right-of-use asset	21,243	-
Changes in operating assets and liabilities		
Grants and contracts receivable	(438,933)	(213,736)
Prepaid expenses and other current assets	32,838	212,119
Accounts payable and accrued expenses	(41,523)	58,008
Accrued payroll and payroll taxes	(122,413)	31,229
Operating lease liabilities	(21,243)	-
Refundable advances	7,891	(7,836)
Net Cash from Operating Activities	(638,697)	574,353
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(145,690)	(92,629)
Purchases of investments	(2,000,000)	(220,381)
Proceeds from sale of investments	1,328,704	276,041
Net Cash from Investing Activities	(816,986)	(36,969)
 Net Change in Cash and Restricted Cash	 (1,455,683)	 537,384
CASH AND RESTRICTED CASH		
Beginning of year	7,248,228	6,710,844
End of year	\$ 5,792,545	\$ 7,248,228
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid for amounts included in the measurement of lease liability	\$ 22,032	\$ -

Manhattan Charter Schools

Notes to Financial Statements
June 30, 2023 and 2022

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”). 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. The Board of Regents approved and issued renewals to its amended and restated charter for an additional five-year term expiring July 31, 2027.

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 276 students in kindergarten through fifth grade during the 2022-2023 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, 2023 and 2022

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 Pronouncement

Leases (Topic 842)

In February 2016, the FASB issued Accounting Standards Update (“ASU”) No. 2016-02, *Leases (Topic 842)*, which requires entities that lease assets (lessees) to recognize the assets and related liabilities for the rights and obligations created by the leases on the statement of financial position for leases with terms exceeding 12 months. ASU No. 2016-02 defines a lease as a contract or part of a contract that conveys the right to control the use of identified assets for a period of time in exchange for consideration. The lessee in a lease will be required to initially measure the right-of-use asset and the lease liability at the present value of the remaining lease payments, as well as capitalize initial direct costs as part of the right-of-use asset.

The School adopted the requirements of the new standard effective July 1, 2022, using the modified retrospective transition method, which applies the provisions of the standard at the effective date without any adjustment to the comparative periods presented. The School adopted the following practical expedients and elected the following accounting policies related to this standard: Carry forward of historical lease classifications and accounting treatment.

Accordingly, the School will recognize lease payments on a straight-line basis over the lease term and variable payments in the period when the corresponding obligation is incurred. As a result of the adoption of the new lease accounting guidance, on July 1, 2022, the School recognized a lease liability of \$39,016 that represents the present value of the operating lease payments of \$40,008, discounted with a risk-free interest rate using the treasury bond rate for 2 years of 2.87%, and a right of use (“ROU”) asset of \$39,016. The standard did not materially impact operating results or liquidity.

Manhattan Charter Schools

Notes to Financial Statements
June 30, 2023 and 2022

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. The Board of Trustees has designated \$2,000,000 for long-term educational planning, organizational growth or facilities planning. Such designated amount was \$1,320,000 at June 30, 2022.

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

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.

Restricted Cash

Under the provisions of its charters, the School established escrow accounts to pay for legal and audit expenses that would be associated with a dissolution, should it occur.

Manhattan Charter Schools

Notes to Financial Statements
June 30, 2023 and 2022

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

Restricted Cash (continued)

The following table provides a reconciliation of cash and restricted cash reported within the statements of financial position to the amounts presented in the statements of cash flows at June 30:

	2023	2022
Cash	\$ 5,642,403	\$ 7,097,403
Restricted cash	150,142	150,825
	<u>\$ 5,792,545</u>	<u>\$ 7,248,228</u>

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, 2023 and 2022.

Leases

The School accounts for leases under Topic 842. The School determines if an arrangement is a lease at inception. Operating leases are included in operating lease ROU assets and operating lease liabilities on the accompanying statement of financial position. The School made the short-term lease election for leases with an initial term of less than 12 months.

Manhattan Charter Schools

Notes to Financial Statements
June 30, 2023 and 2022

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

Leases (continued)

ROU assets represent the right to use underlying assets for the lease terms and lease liabilities represent the obligation to make lease payments arising from the leases. Operating lease ROU assets and liabilities are recognized at the lease commencement dates based on the present value of lease payments over the lease terms. When leases do not provide an implicit borrowing rate, the School uses a risk-free rate based on the information available at the commencement date in determining the present value of lease payments. The operating lease ROU assets includes any lease payments made and excludes lease incentives. The lease terms may include options to extend or terminate the lease when it is reasonably certain that the School will exercise that option. Lease expense for lease payments is recognized on a straight-line basis over the lease terms. The School's lease agreements do not contain any material residual value guarantees or material restrictive covenants. The School has lease agreements with lease and non-lease components, which are generally accounted for separately. The School's lease agreements do not contain any variable lease components. The School applies the short-term lease exemption to all of its classes of underlying assets.

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.

Marketing and Recruiting

Marketing and recruiting costs are expensed as incurred for staff and student recruitment. Marketing and recruiting expense for the years ended June 30, 2023 and 2022 was \$224,527 and \$91,091.

Manhattan Charter Schools

Notes to Financial Statements
June 30, 2023 and 2022

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

Measure of Operations

The statement of activities reports all changes in net assets, including changes in net assets from operating and non-operating activities. Operating activities consist of those items attributable to the School's ongoing services. Non-operating activities include revenue and support from non-governmental and other sources that include contributions revenue, and other activities considered to be a more non-recurring nature.

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 such as personnel service costs, employee benefits and payroll taxes, other purchased professional and consulting services, and technology 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, 2020.

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 4, 2023.

3. Investments

The School's investments at June 30, 2023 and 2022 consisted of certificate of deposits in the amounts of \$1,981,485 and \$1,328,704, categorized as level 1 in the fair value hierarchy.

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

Manhattan Charter Schools

Notes to Financial Statements June 30, 2023 and 2022

5. Property and Equipment

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

	<u>2023</u>	<u>2022</u>
Computers and equipment	\$ 877,886	\$ 745,171
Furniture and fixtures	208,749	200,800
Leasehold improvements	180,662	180,662
Software	<u>5,526</u>	<u>500</u>
	1,272,823	1,127,133
Accumulated depreciation and amortization	<u>(995,959)</u>	<u>(893,707)</u>
	<u>\$ 276,864</u>	<u>\$ 233,426</u>

Assets with a cost basis and accumulated depreciation of \$462,767 were disposed of during the year ended June 30, 2022.

6. Employee Benefit Plan

The School maintains a pension plan qualified under Internal Revenue Code 403(b), for the benefit of its eligible employees. Under the plan, the School provided matching contributions up to 4% of the participant's annual compensation. Employee match for the years ended June 30, 2023 and 2022 amounted to \$94,971 and \$113,285.

7. 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:	<u>2023</u>	<u>2022</u>
Cash	\$ 5,642,403	\$ 7,097,403
Investments	1,981,485	1,328,704
Grants and contracts receivable	<u>953,810</u>	<u>514,877</u>
Total Financial Assets	<u>8,577,698</u>	<u>8,940,984</u>
Less amounts unavailable for general expenditure:		
Net assets with donor restrictions	-	2,825
Board designated net assets	<u>2,000,000</u>	<u>1,320,000</u>
	<u>2,000,000</u>	<u>1,322,825</u>
	<u>\$ 6,577,698</u>	<u>\$ 7,618,159</u>

Manhattan Charter Schools

Notes to Financial Statements
June 30, 2023 and 2022

7. Liquidity and Availability of Financial Assets *(continued)*

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. The School will continue to rely on funding received from the New York City Department of Education to cover its future operating costs (see note 9).

8. Concentration of Credit Risk

Financial instruments that potentially subject the School to concentrations of credit and market risk consist principally of cash on deposit and investments 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, 2023 and 2022, approximately \$5,300,000 and \$7,000,000 of cash and investments were 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 each of the years ended June 30, 2023 and 2022, the School received approximately 85% and 87% 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. Commitments

The School entered into two separate operating leases for copier and printer equipment with various termination dates through August 2024.

ROU assets consist of the following at June 30, 2023:

ROU asset - operating lease	\$	39,016
Accumulated amortization		(21,243)
	\$	<u>17,773</u>

Weighted average remaining lease term	0.92 years
Weighted average discount rate	2.87%

Manhattan Charter Schools

Notes to Financial Statements
June 30, 2023 and 2022

10. Commitments *(continued)*

The future minimum lease payments under the leases are as follows for the years ending June 30:

2024	\$	16,880
2025		1,096
Total minimum lease payments		<u>17,976</u>
Present value discount		<u>(203)</u>
Present value of operating lease liability		17,773
Current portion		<u>(16,678)</u>
Operating lease liabilities, less current portion	\$	<u><u>1,095</u></u>

The lease expense for the years ended June 30, 2023 and 2022 amounted to \$23,850 and \$24,563.

11. Net Assets with Donor Restrictions

Net assets with donor restrictions at June 30, 2022 consist of grants restricted for musical education.

Net assets for the years ended June 30, 2023 and 2022 were released from donor restrictions by satisfying the purpose specified by donors for musical education, literacy software and technology.

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.

Manhattan Charter Schools

Supplementary Information

June 30, 2023

Manhattan Charter Schools

Schedule of Activities by School

Year Ended June 30, 2023

(with summarized totals for the year ended June 30, 2022)

	Manhattan Charter School		Manhattan Charter School II			Manhattan Charter Schools		
	2023	2022	2023		2022	2023	2022	
	Without Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total	Total	Total	
OPERATING REVENUE								
State and local per pupil operating revenue								
General education	\$ 3,152,101	\$ 3,433,429	\$ 1,689,937	\$ -	\$ 1,689,937	\$ 1,857,287	\$ 4,842,038	\$ 5,290,716
Special education	416,670	485,317	318,879	-	318,879	346,423	735,549	831,740
Federal grants	385,527	400,135	321,462	-	321,462	281,917	706,989	682,052
Federal E-Rate and IDEA	103,670	79,249	71,496	-	71,496	69,911	175,166	149,160
State grants	13,397	18,119	7,811	-	7,811	11,028	21,208	29,147
Total Operating Revenue	<u>4,071,365</u>	<u>4,416,249</u>	<u>2,409,585</u>	<u>-</u>	<u>2,409,585</u>	<u>2,566,566</u>	<u>6,480,950</u>	<u>6,982,815</u>
EXPENSES								
Program Services								
Regular education	2,768,444	2,991,894	1,396,083	-	1,396,083	1,528,057	4,164,527	4,519,951
Special education	911,986	748,194	614,205	-	614,205	618,504	1,526,191	1,366,698
Total Program Services	<u>3,680,430</u>	<u>3,740,088</u>	<u>2,010,288</u>	<u>-</u>	<u>2,010,288</u>	<u>2,146,561</u>	<u>5,690,718</u>	<u>5,886,649</u>
Supporting Services								
Management and general	526,227	392,979	489,804	-	489,804	330,732	1,016,031	723,711
Fundraising	38,092	6,982	38,010	-	38,010	6,908	76,102	13,890
Total Expenses	<u>4,244,749</u>	<u>4,140,049</u>	<u>2,538,102</u>	<u>-</u>	<u>2,538,102</u>	<u>2,484,201</u>	<u>6,782,851</u>	<u>6,624,250</u>
Surplus (Deficit) from Operations	<u>(173,384)</u>	<u>276,200</u>	<u>(128,517)</u>	<u>-</u>	<u>(128,517)</u>	<u>82,365</u>	<u>(301,901)</u>	<u>358,565</u>
SUPPORT AND OTHER REVENUE								
Contributions	18,027	36,627	3,608	-	3,608	161	21,635	36,788
Investment income, net	52,633	6,382	25,317	-	25,317	193	77,950	6,575
Other revenue	22,637	-	870	-	870	-	23,507	-
Unrealized (loss) on investments	(18,515)	-	-	-	-	-	(18,515)	-
Net assets released from restrictions	-	-	2,825	(2,825)	-	-	-	-
Total Support and Other Revenue	<u>74,782</u>	<u>43,009</u>	<u>32,620</u>	<u>(2,825)</u>	<u>29,795</u>	<u>354</u>	<u>104,577</u>	<u>43,363</u>
Change in Net Assets	(98,602)	319,209	(95,897)	(2,825)	(98,722)	82,719	(197,324)	401,928
NET ASSETS								
Beginning of year	<u>6,658,035</u>	<u>6,338,826</u>	<u>1,911,938</u>	<u>2,825</u>	<u>1,914,763</u>	<u>1,832,044</u>	<u>8,572,798</u>	<u>8,170,870</u>
End of year	<u>\$ 6,559,433</u>	<u>\$ 6,658,035</u>	<u>\$ 1,816,041</u>	<u>\$ -</u>	<u>\$ 1,816,041</u>	<u>\$ 1,914,763</u>	<u>\$ 8,375,474</u>	<u>\$ 8,572,798</u>

See independent auditors' report

Manhattan Charter Schools

Schedule of Functional Expenses - Manhattan Charter School
 Year Ended June 30, 2023
 (with summarized totals for the year ended June 30, 2022)

	2023						2022	
	No. of Positions	Program Services			Supporting Services			Total
		Regular Education	Special Education	Total	Management and General	Fundraising	Total	
Personnel Services Costs								
Administrative staff personnel	5	\$ 261,794	\$ 101,614	\$ 363,408	\$ 271,538	\$ 28,125	\$ 663,071	\$ 612,516
Instructional personnel	29	1,516,384	468,421	1,984,805	-	-	1,984,805	2,046,357
Non-instructional personnel	2	65,197	25,306	90,503	-	-	90,503	87,061
Total Personnel Services Costs	<u>36</u>	<u>1,843,375</u>	<u>595,341</u>	<u>2,438,716</u>	<u>271,538</u>	<u>28,125</u>	<u>2,738,379</u>	<u>2,745,934</u>
Employee benefits and payroll taxes		360,234	113,818	474,052	58,768	6,087	538,907	534,932
Retirement		50,782	16,045	66,827	8,284	858	75,969	77,709
Legal services		-	-	-	4,027	-	4,027	5,327
Accounting and auditing services		-	-	-	154,164	-	154,164	148,048
Other professional and consulting services		97,985	37,273	135,258	1,717	178	137,153	91,890
Repairs and maintenance		573	181	754	94	10	858	3,551
Insurance		32,123	10,150	42,273	5,240	543	48,056	43,909
Supplies and materials		65,846	25,722	91,568	26	-	91,594	91,594
Equipment and furnishings		1,375	434	1,809	225	23	2,057	8,183
Staff development		62,144	23,718	85,862	911	94	86,867	103,466
Marketing and recruiting		77,753	30,180	107,933	-	-	107,933	43,638
Technology		66,857	21,124	87,981	10,907	1,130	100,018	100,554
Student service		47,597	18,474	66,071	-	-	66,071	42,685
Office expense		15,756	4,978	20,734	2,572	266	23,572	22,461
Depreciation and amortization		45,525	14,384	59,909	7,427	769	68,105	61,547
Miscellaneous		519	164	683	327	9	1,019	14,621
Total Expenses		<u>\$ 2,768,444</u>	<u>\$ 911,986</u>	<u>\$ 3,680,430</u>	<u>\$ 526,227</u>	<u>\$ 38,092</u>	<u>\$ 4,244,749</u>	<u>\$ 4,140,049</u>

Manhattan Charter Schools

Schedule of Functional Expenses - Manhattan Charter School II
 Year Ended June 30, 2023
 (with summarized totals for the year ended June 30, 2022)

	2023						2022	
	No. of Positions	Program Services			Supporting Services			Total
		Regular Education	Special Education	Total	Management and General	Fundraising	Total	
Personnel Services Costs								
Administrative staff personnel	5	\$ 239,169	\$ 139,060	\$ 378,229	\$ 259,224	\$ 28,671	\$ 666,124	\$ 579,037
Instructional personnel	12	620,711	211,913	832,624	-	-	832,624	975,415
Non-instructional personnel	-	-	-	-	-	-	-	-
Total Personnel Services Costs	<u>17</u>	<u>859,880</u>	<u>350,973</u>	<u>1,210,853</u>	<u>259,224</u>	<u>28,671</u>	<u>1,498,748</u>	<u>1,554,452</u>
Employee benefits and payroll taxes		137,038	54,286	191,324	44,181	4,886	240,391	251,752
Retirement		10,832	4,291	15,123	3,493	386	19,002	35,576
Legal services		-	-	-	2,777.00	-	2,777	2,927
Accounting and auditing services		-	-	-	142,239.00	-	142,239	132,725
Other professional and consulting services		109,043	63,031	172,074	643	71	172,788	132,849
Repairs and maintenance		416	165	581	134	15	730	2,971
Insurance		26,328	10,429	36,757	8,488	939	46,184	39,961
Supplies and materials		34,758	20,209	54,967	108	-	55,075	52,771
Equipment and furnishings		-	-	-	-	-	-	-
Staff development		35,106	19,665	54,771	1,299	144	56,214	50,501
Marketing and recruiting		73,727	42,867	116,594	-	-	116,594	47,453
Technology		57,265	23,036	80,301	17,852	1,974	100,127	95,387
Student service		25,784	14,991	40,775	-	-	40,775	34,355
Office expense		6,440	2,551	8,991	2,076	230	11,297	10,001
Depreciation and amortization		19,466	7,711	27,177	6,276	694	34,147	31,064
Miscellaneous		-	-	-	1,014	-	1,014	9,456
Total Expenses		<u>\$ 1,396,083</u>	<u>\$ 614,205</u>	<u>\$ 2,010,288</u>	<u>\$ 489,804</u>	<u>\$ 38,010</u>	<u>\$ 2,538,102</u>	<u>\$ 2,484,201</u>

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") (a nonprofit organization), which comprise the statement of financial position as of June 30, 2023, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 4, 2023.

Report on 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) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control. Accordingly, we do not express an opinion on the effectiveness of the School's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the 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 or significant deficiencies may exist that were not identified.

Report on 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 financial statements. 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 organization'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 organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

PKF O'Connor Davies, LLP

Harrison, New York
October 4, 2023

**Independent Auditors' Communication on
Internal Control Matters**

**The Board of Trustees
Manhattan Charter Schools**

In planning and performing our audit of the financial statements of Manhattan Charter Schools (the "School") as of and for the year ended June 30, 2023, 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.

We have an other observation and recommendation that is an opportunity for strengthening internal control and/or operating efficiency, presented in Addendum A to this letter.

This communication is intended solely for the information and use of management, audit committee, board of Trustees, The Charter School Institute of the State University of New York, The State Education Department of the State University of New York, and others within the School, and is not intended to be and should not be used by anyone other than these specified parties.

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

PKF O'Connor Davies, LLP

Harrison, New York
October 4, 2023

Addendum A

Other Observation and Recommendation for Strengthening Internal Control and/or Operating Efficiency

1. Escrow Account for Dissolution

Under the provisions of its charter, the School is required to establish an escrow account in order to pay for legal and audit expenses that would be associated with a dissolution should it occur. The School is required to fund \$75,000 per charter during the first three years of operations at a minimum of \$25,000 per year. At June 30, 2023, the School was required to maintain \$150,000 for both charters.

We noted that the School did not maintain a separate interest bearing account as of June 30, 2023, due to the closing of its respective bank accounts with former bank. The School subsequently opened and deposited \$150,000 into a new dissolution escrow account with successor bank/broker. In an effort to ensure that the School is in compliance with the provisions of its charter, we recommend that the School segregate this dissolution account in the chart of accounts, and review on a periodic basis to determine that the School is in compliance with its charter.

* * * * *