

HEKETI COMMUNITY CHARTER SCHOOL

FINANCIAL STATEMENTS

JUNE 30, 2017

(WITH SUMMARIZED COMPARATIVE INFORMATION FOR JUNE 30, 2016)

HEKETI COMMUNITY CHARTER SCHOOL

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Heketi Community Charter School

Report on the Financial Statements

We have audited the accompanying financial statements of Heketi Community Charter School (the "School"), which comprise the statement of financial position as of June 30, 2017, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's 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 of 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the School's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Heketi Community Charter School as of June 30, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited Heketi Community Charter School's 2016 financial statements and we expressed an unmodified opinion on those audited financial statements in our report dated September 26, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 25, 2017, on our consideration of Heketi Community Charter School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the 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 Heketi Community Charter School's internal control over financial reporting and compliance.

MBAF CPAs, LLC

New York, NY
September 25, 2017

HEKETI COMMUNITY CHARTER SCHOOL
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2017
(WITH SUMMARIZED COMPARATIVE INFORMATION FOR JUNE 30, 2016)

ASSETS	2017	2016
Cash	\$ 1,777,210	\$ 1,743,939
Cash - restricted	75,000	75,000
Grants and other receivables	204,350	77,269
Prepaid expenses	132,863	76,130
Property and equipment, net	90,972	81,750
Security deposits	263,178	257,578
	<u>\$ 2,543,573</u>	<u>\$ 2,311,666</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued expenses	\$ 75,483	\$ 61,078
Accrued salary and other payroll related expenses	352,667	240,260
Deferred revenue	43,761	22,939
Deferred rent	1,335,397	998,049
	<u>1,807,308</u>	<u>1,322,326</u>
NET ASSETS - UNRESTRICTED	<u>736,265</u>	<u>989,340</u>
	<u>\$ 2,543,573</u>	<u>\$ 2,311,666</u>

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

HEKETI COMMUNITY CHARTER SCHOOL
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017
(WITH SUMMARIZED COMPARATIVE INFORMATION FOR THE YEAR ENDED JUNE 30, 2016)

	2017	2016
OPERATING REVENUE		
State and local per pupil operating revenue	\$ 4,227,021	\$ 3,836,663
Government grants and contracts	891,446	680,499
	<u>5,118,467</u>	<u>4,517,162</u>
EXPENSES		
Program services:		
General education	3,425,361	2,803,262
Special education	1,219,945	1,082,217
Management and general	794,837	651,590
Fundraising	39,854	25,326
	<u>5,479,997</u>	<u>4,562,395</u>
DEFICIT FROM SCHOOL OPERATIONS	<u>(361,530)</u>	<u>(45,233)</u>
SUPPORT AND OTHER INCOME		
Contributions:		
Foundations	19,414	7,220
Contributions - in kind	75,213	53,032
Benefit income, net of direct expenses of \$9,974 and \$1,060 for the years ended 2017 and 2016, respectively	1,793	560
Interest income	602	2,894
Miscellaneous income	11,433	10,815
	<u>108,455</u>	<u>74,521</u>
CHANGE IN NET ASSETS	<u>(253,075)</u>	<u>29,288</u>
NET ASSETS - BEGINNING	<u>989,340</u>	<u>960,052</u>
NET ASSETS - END	<u>\$ 736,265</u>	<u>\$ 989,340</u>

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

HEKETI COMMUNITY CHARTER SCHOOL
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2017
(WITH SUMMARIZED COMPARATIVE INFORMATION FOR THE YEAR ENDED JUNE 30, 2016)

	No. of Positions	Program Services			Supporting Services			2017	2016
		General Education	Special Education	Total	Fundraising	Management and General	Total		
Personnel services costs									
Administrative staff personnel	6	\$ 213,098	\$ 56,896	\$ 269,994	\$ 21,823	\$ 245,147	\$ 266,970	\$ 536,964	\$ 446,244
Instructional personnel	31	1,327,438	557,229	1,884,667	-	-	-	1,884,667	1,399,581
Non-instructional personnel	7	105,219	16,969	122,188	-	117,387	117,387	239,575	174,195
Total salaries and staff	44	1,645,755	631,094	2,276,849	21,823	362,534	384,357	2,661,206	2,020,020
Fringe benefits and payroll taxes		289,329	110,948	400,277	3,837	63,735	67,572	467,849	364,899
Retirement		15,515	5,949	21,464	206	3,418	3,624	25,088	13,917
In-kind legal services		46,514	17,836	64,350	617	10,246	10,863	75,213	53,032
Accounting and audit services		14,098	5,406	19,504	187	3,105	3,292	22,796	24,880
Other purchased, professional, and consulting services		75,266	15,882	91,148	223	121,025	121,248	212,396	198,184
Rent and other facility maintenance expense		800,937	307,133	1,108,070	10,621	176,434	187,055	1,295,125	1,293,974
Repairs and maintenance		25,376	9,731	35,107	336	5,590	5,926	41,033	65,203
Insurance		23,244	8,913	32,157	308	5,120	5,428	37,585	33,791
Utilities		54,169	20,772	74,941	718	11,933	12,651	87,592	74,544
Supplies and materials		82,483	13,302	95,785	-	-	-	95,785	82,554
Equipment and furnishings		4,332	1,661	5,993	57	954	1,011	7,004	6,920
Staff development		13,149	1,788	14,947	-	-	-	14,947	18,311
Marketing and recruitment		14,113	4,745	18,858	147	2,448	2,595	21,453	28,941
Technology		15,494	5,941	21,435	205	3,413	3,618	25,053	19,747
Food service		179,069	28,879	207,948	-	-	-	207,948	176,381
Student services		83,527	13,470	96,997	-	-	-	96,997	18,129
Office expense		10,737	4,117	14,854	10,116	17,777	27,893	42,747	25,381
Depreciation and amortization		28,767	11,031	39,798	381	6,337	6,718	46,516	42,206
Other		3,487	1,337	4,824	46	768	814	5,638	4,341
		3,425,361	1,219,945	4,645,306	49,828	794,837	844,665	5,489,971	4,563,455
Less: expenses deducted directly from revenues on the statement of activities		-	-	-	(9,974)	-	(9,974)	(9,974)	(1,060)
		\$ 3,425,361	\$ 1,219,945	\$ 4,645,306	\$ 39,854	\$ 794,837	\$ 834,691	\$ 5,479,997	\$ 4,562,395

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

HEKETI COMMUNITY CHARTER SCHOOL
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2017
(WITH SUMMARIZED COMPARATIVE INFORMATION FOR THE YEAR ENDED JUNE 30, 2016)

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from operating revenue and other income	\$ 5,044,848	\$ 4,503,220
Interest income	602	2,894
Cash paid to employees and suppliers	<u>(4,956,441)</u>	<u>(3,959,423)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	89,009	546,691
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	<u>(55,738)</u>	<u>(31,722)</u>
NET INCREASE IN CASH	33,271	514,969
CASH - BEGINNING OF YEAR	<u>1,743,939</u>	<u>1,228,970</u>
CASH - END OF YEAR	<u>\$ 1,777,210</u>	<u>\$ 1,743,939</u>
Reconciliation of change in net assets to net cash provided by operating activities:		
Change in net assets	\$ (253,075)	\$ 29,288
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	46,516	42,206
Changes in operating assets and liabilities:		
Grants and other receivables	(127,081)	(34,273)
Prepaid expenses	(56,733)	(19,788)
Security deposit	(5,600)	(4,853)
Accounts payable and accrued expenses	14,405	24,034
Accrued salary and other payroll related expenses	112,407	57,940
Deferred revenue	20,822	1,736
Deferred rent	<u>337,348</u>	<u>450,401</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 89,009</u>	<u>\$ 546,691</u>

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

HEKETI COMMUNITY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017

1. NATURE OF THE ORGANIZATION

Heketi Community Charter School (the "School") is a not-for-profit public charter school in New York City pursuant to Article 56 of the Educational Law of the State of New York. On December 14, 2010, the Board of Regents of the University of the State of New York granted the School a provisional charter valid for a term of five years and renewable upon expiration. On May 25, 2017, the School received their second extension to their charter term to July 31, 2020. The School currently serves kindergarten through grade four. The School's mission is to provide an exceptional educational solution through an integrated educational design with high expectations, extensive academic and social-emotional support, and a high level of family and community engagement.

The School, as determined by the Internal Revenue Service, is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code ("IRC") and under the corresponding provisions of the New York State tax laws. The School has also been classified as an entity that is not a private foundation within the meaning of Section 509(a) of the IRC and qualifies for deductible contributions as provided in section 170(b)(1)(A)(ii) of the IRC.

The School's primary sources of income are from government funding.

2. SIGNIFICANT ACCOUNTING POLICIES

Financial Statement Presentation

The School's financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP").

The classification of a School's net assets and its support, revenues and expenses is based on the existence or absence of donor-imposed restrictions. It requires that the amounts for each of the three classes of net assets – permanently restricted, temporarily restricted, and unrestricted – be displayed in the statement of financial position and that the amounts of change in each of those classes of net assets be displayed in the statement of activities.

These classes are defined as follows:

Permanently Restricted - Net assets resulting from contributions and other inflows of assets whose use by the School is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the School.

Temporarily Restricted - Net assets resulting from contributions and other inflows of assets whose use by the School is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the School pursuant to those stipulations. When such stipulations end or are fulfilled, such temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities. However, if a restriction is fulfilled in the same period in which the contribution is received, the School reports the support as unrestricted.

Unrestricted - The part of net assets that is neither permanently nor temporarily restricted by donor-imposed stipulations.

HEKETI COMMUNITY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash – Restricted

A restricted fund of \$75,000 is held aside to cover debts in the event of the School's dissolution as required by The State University of New York.

Grants and Other Receivables

Grants and other receivables represent unconditional promises to give. Grants and other receivables that are expected to be collected within one year and recorded at net realizable value are \$204,350 and \$77,269 at June 30, 2017 and 2016, respectively. The School evaluates the collectability of the receivables and employs the allowance method. The School has determined that no allowance for uncollectible accounts for grants and other receivables is necessary as of June 30, 2017. Such estimate is based on management's assessments of the creditworthiness of its grantors, the age of its receivables, as well as current economic conditions.

Revenue Recognition

Revenue from state and local governments resulting from the School's charter status is based on the number of students enrolled and is recorded when services are performed in accordance with the charter agreement.

Revenue from federal, state and local government grants and contracts are recorded by the School when qualifying expenditures are incurred and billable. Funds received in advance for which qualifying expenditures have not been incurred are reflected as deferred revenue from state and local government grants in the accompanying statement of financial position.

Donated Services

Donated services are recorded as contributions in-kind, at their fair value, provided the services received create or enhance non-financial assets, require specified skills provided by individuals possessing those skills, and typically need to be purchased if not provided by donation. The School receives contributed legal services that are an integral part of its operations. Donated services received are estimated at \$75,213 and \$53,032 for the years ended June 30, 2017 and 2016, respectively, and are reflected as in-kind legal services as both income and expense in the accompanying financial statements.

Property and Equipment

Property and equipment are stated at cost and are being depreciated on the straight-line method over the estimated useful lives of the assets. The School has established a \$500 threshold above which assets are evaluated to be capitalized. Property and equipment acquired with certain government contract funds is recorded as an expense pursuant to the terms of the contract in which the government funding source retains ownership of the property. Maintenance and repairs are charged to expense as incurred; major renewals and betterments are capitalized.

Impairment

The School reviews long-lived assets to determine whether there has been any permanent impairment whenever events or circumstances indicate the carrying amount of an asset may not be recoverable. If the sum of the expected future undiscounted cash flows is less than the carrying amount of the assets, the School recognizes an impairment loss. No impairment losses were recognized for the years ended June 30, 2017 and 2016.

HEKETI COMMUNITY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Advertising

The School expenses advertising costs as incurred. The School incurred \$3,485 and \$3,831 of advertising costs for the years ended June 30, 2017 and 2016, respectively, which is included in the accompanying statement of functional expenses under marketing and recruitment.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis. Expenses that can be directly identified with the program or supporting service to which they relate are charged accordingly. Other expenses by function have been allocated among program and supporting service classifications based upon benefits received.

Estimates

The preparation of financial statements in conformity with U.S. GAAP 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. Actual results could differ from those estimates.

Subsequent Events

The School has evaluated events through September 25, 2017, which is the date the financial statements were available to be issued.

Comparative Financial Information

The June 30, 2017 financial statements include certain prior year summarized comparative information in total but not by net asset class. In addition, only certain of the notes to the financial statements for June 30, 2016 are presented. As a result, the June 30, 2016 comparative information does not include sufficient detail to constitute a presentation in conformity with U.S. GAAP. Accordingly, such June 30, 2016 information should be read in conjunction with the School's financial statements for the year ended June 30, 2016, from which the summarized information was derived.

Income Taxes

The School follows the accounting standard for uncertainty in income taxes. The standard prescribes a minimum recognition threshold and measurement methodology that a tax position taken or expected to be taken in a tax return is required to meet before being recognized in the financial statements. It also provides guidance for derecognition, classification, interest and penalties, disclosure and transition.

The School files informational returns in the federal and New York State jurisdictions. With few exceptions, the School is no longer subject to Federal, state, or local income tax examinations for fiscal years before 2014.

The School believes that it has appropriate support for the positions taken on its tax returns. Nonetheless, the amounts ultimately paid, if any, upon resolution of the issues raised by the taxing authorities may differ materially from the amounts accrued for each year. Management believes that its nonprofit status would be sustained upon examination.

Should there be interest on underpayments of income tax, the School would classify it as interest expense. The School would classify penalties in connection with underpayments of tax as other expense.

HEKETI COMMUNITY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued an accounting standards update which affects the revenue recognition of entities that enter into either (1) certain contracts to transfer goods or services to customers or (2) certain contracts for the transfer of nonfinancial assets. The update indicates an entity should recognize revenue in an amount that reflects the consideration the entity expects to be entitled to in exchange for the goods or services transferred by the entity. The update is to be applied to the beginning of the year of implementation or retrospectively and is effective for annual periods beginning after December 15, 2018 and in interim periods in annual periods beginning after December 15, 2019. Early application is permitted but no earlier than annual reporting periods beginning after December 31, 2016. The School is currently evaluating the effect the update will have on its financial statements.

In February 2016, the FASB issued an accounting standards update which amends existing lease guidance. The update requires lessees to recognize a right-of-use asset and related lease liability for many operating leases now currently off-balance sheet under current U.S. GAAP. Accounting by lessors remains largely unchanged from current U.S. GAAP. The update is effective using a modified retrospective approach for fiscal years beginning after December 15, 2019, and for interim periods within fiscal years beginning after December 15, 2020, with early application permitted. The School is currently evaluating the effect the update will have on its financial statements.

In August 2016, the FASB issued an accounting standards update which aims to improve information provided to creditors, donors, grantors, and others while also reducing complexity and costs. The update is the first phase of a project regarding not-for-profits which aims to improve and simplify net asset classification requirements and improve the information presented and disclosed in financial statements about liquidity, cash flows, and financial performance. The update is effective retrospectively for financial statements issued for fiscal years beginning after December 15, 2017, and interim periods within fiscal years beginning after December 15, 2018, with earlier application permitted. The School is currently evaluating the effect the update will have on its financial statements.

In November 2016, the FASB issued an accounting standards update which amends cash flow statement presentation of restricted cash. The update requires amounts generally described as restricted cash and restricted cash equivalents be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The update is effective retrospectively for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019, with early adoption permitted. The School is currently evaluating the effect the update will have on its financial statements.

HEKETI COMMUNITY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017

3. PROPERTY AND EQUIPMENT

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

	2017	2016	Estimated Useful Lives
Office furniture	\$ 12,840	\$ 11,737	5 years
Equipment	27,734	3,797	3 years
Technology infrastructure	30,364	15,364	4 years
Classroom furniture	124,219	111,476	5 years
Computers	56,446	53,491	4 years
Website	1,100	1,100	3 years
	<u>252,703</u>	<u>196,965</u>	
Less: Accumulated depreciation and amortization	<u>(161,731)</u>	<u>(115,215)</u>	
	<u>\$ 90,972</u>	<u>\$ 81,750</u>	

Depreciation and amortization expense for the years ended June 30, 2017 and 2016 was \$46,516 and \$42,206, respectively.

4. COMMITMENTS

On May 1, 2013, the School entered into a non-cancelable operating lease for a permanent facility for office and classroom space which began on August 1, 2014 and expires on June 20, 2049. Future minimum lease payments are as follows:

June 30,	
2018	\$ 921,742
2019	940,177
2020	958,981
2021	978,160
2022	997,724
Thereafter	<u>36,111,292</u>
Total	<u>\$ 40,908,076</u>

The School recognizes rent expense on a straight-line basis over the term of the lease. Rent expense in excess of payments is recorded as deferred rent in the accompanying statement of financial position. For each of the years ended June 30, 2017 and 2016, the School incurred \$1,233,434 in rent expense, which is included in the accompanying statement of functional expenses under rent expense. The School has a security deposit in the amount of \$250,000 in connection with this lease.

HEKETI COMMUNITY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017

5. RISK MANAGEMENT

- A. The School is exposed to various risks of loss related to torts; thefts of, damage to, and destruction of assets; injuries to employees; and natural disasters. The School maintains commercial insurance to help protect itself from such risks.
- B. The School entered into contractual relationships with certain governmental funding sources. The governmental agencies may request return of funds as a result of noncompliance by the School, as well as additional funds for the use of facilities. The accompanying financial statements make no provision for the possible disallowance or refund.
- C. The School's charter is up for renewal on July 31, 2020. Although the School anticipates that this renewal will be granted by the authorizers, no assurance can be provided that this will occur.

6. CONCENTRATIONS

- A. Financial instruments that potentially subject the School to a concentration of credit risk include cash accounts at a major financial institution that, at times, exceeded the Federal Deposit Insurance Corporation insured limit of \$250,000.
- B. The School received approximately 87% of its total revenue and support from per pupil funding from the New York City Department of Education during the year ended June 30, 2017.
- C. The School's grants and other receivables consist of two major grantors at June 30, 2017.



Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards

To the Board of Trustees
Heketi Community Charter School

We have audited, 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, the financial statements of Heketi Community Charter School (the "School"), which comprise the statement of financial position as of June 30, 2017, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated September 25, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the School's internal control over financial reporting ("internal control") to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control. Accordingly, we do not express an opinion on the effectiveness of the School's internal control.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School's financial statements are free of 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*.

We noted certain matters that we reported to management of the School in a separate letter dated September 25, 2017.

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.

MBAF CPAs, LLC

New York, NY
September 25, 2017

Heketi Community Charter School

Communication With Those Charged With Governance

SEPTEMBER 25, 2017





September 25, 2017

To the Audit Committee
Heketi Community Charter School

We have audited the financial statements of Heketi Community Charter School (the "School") for the year ended June 30, 2017 and are prepared to issue our report thereon dated September 25, 2017. Professional standards require that we provide you with the following information related to our audit. This letter is divided into two sections: 1) required communications from the auditors to those with audit oversight responsibilities and 2) opportunities for strengthening internal controls or enhancing operating efficiency and our related recommendations.

REQUIRED COMMUNICATIONS

A. Our Responsibility under U.S. Generally Accepted Auditing Standards:

As stated in our engagement letter April 25, 2017, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities. Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement. As part of our audit, we considered the internal control of Heketi Community Charter School. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control. We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters.

B. Planned Scope and Timing of the Audit:

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on July 2017.

C. Auditor Independence:

We affirm that MBAF CPAs, LLC is independent with respect to Heketi Community Charter School.

D. Qualitative Aspects of Accounting Practices:

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Heketi Community Charter School are described in Note 2 to the financial statements. We noted no transactions entered into by the School during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

E. Accounting Estimates Used in the Financial Statements:

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

Allowance for Doubtful Accounts:

As of June 30, 2017, Heketi Community Charter School recorded grants receivable of \$147,305. Management concluded that no allowance for doubtful accounts was necessary. Management calculated based on the assessment of the credit-worthiness of the School's grantors, the aged basis of the receivables, as well as economic conditions and historical information. Based on our audit procedures which included a discussion with the School fiscal Consultant and a test of subsequent collections, we concur with management's conclusion.

Depreciation:

Management's estimate of depreciation is based on estimated useful lives of assets. We evaluated the estimated useful of assets in comparison to accounting principles generally accepted in determining that it is reasonable in relation to the financial statements taken as a whole.

Functional Statement Allocation:

Management's estimate of the allocation of functional expenses is directly identified with the program or supporting service to which they relate. We evaluated the key factors and assumptions used to develop the estimate in determining that it is reasonable in relation to the financial statements taken as a whole.

F. Sensitive Disclosures Affecting the Financial Statements:

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure(s) affecting the financial statements were:

The disclosure of risk management in Note 5 to the financial statements describes various risks to which the School is exposed.

G. Corrected and Uncorrected Misstatements:

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. We will identify those adjustments proposed both corrected and uncorrected:

Proposed and Corrected:

In the current and prior audit year, there were no audit adjustments provided by management.

Proposed and Uncorrected:

There were no audit adjustments proposed and uncorrected.

H. Audit Difficulties and Disagreements with Management:

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report.

We are pleased to report that no such disagreements arose during the course of our audit.

I. Management Representations:

We have requested certain representations from management that are included in the management representation letter dated September 25, 2017.

J. Management Consultations with Other Independent Accountants:

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

K. Other Audit Findings or Issues:

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

OPPORTUNITIES FOR STRENGTHENING INTERNAL CONTROLS OR ENHANCING OPERATING EFFICIENCY

Property, Plant and Equipment Testing:

Our testing of property plant and equipment revealed a capitalization policy of \$500 which leads to a larger number of inconsequential items being capitalized. We recommend that the School consider raising the threshold between \$3,000 to \$5,000. We also found that assets were being capitalized according to invoice amounts. We recommend that the determination to expense or capitalize assets be done by individual items not by invoice.

We wish to thank management and personnel for their support and assistance during our audit. We would be pleased to further discuss the contents of this report with you at your convenience.

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

Very truly yours,

MBAF CPAs, LLC

MBAF CPAs, LLC