

HEKETI COMMUNITY CHARTER SCHOOL

FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

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 statements of financial position as of June 30, 2019 and 2018, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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.

An independent member of Baker Tilly International

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, 2019 and 2018, 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 28, 2019, 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
October 28, 2019

HEKETI COMMUNITY CHARTER SCHOOL
STATEMENTS OF FINANCIAL POSITION
 JUNE 30, 2019 AND 2018

ASSETS	2019	2018
Cash	\$ 1,938,721	\$ 1,866,530
Cash - restricted	75,000	75,000
Grants and other receivables	77,163	240,044
Prepaid expenses	205,199	129,698
Property and equipment, net	35,865	65,390
Security deposits	<u>250,000</u>	<u>257,578</u>
TOTAL ASSETS	<u>\$ 2,581,948</u>	<u>\$ 2,634,240</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued expenses	\$ 65,446	\$ 74,874
Accrued salary and other payroll related expenses	341,707	351,849
Deferred revenue	-	2,602
Deferred rent	<u>1,940,346</u>	<u>1,647,089</u>
	2,347,499	2,076,414
NET ASSETS		
Net assets - without donor restrictions	<u>234,449</u>	<u>557,826</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 2,581,948</u>	<u>\$ 2,634,240</u>

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

HEKETI COMMUNITY CHARTER SCHOOL
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

	2019	2018
OPERATING REVENUE WITHOUT DONOR RESTRICTIONS		
State and local per pupil operating revenue	\$ 4,712,441	\$ 4,582,379
Government grants and contracts	<u>1,223,354</u>	<u>1,207,302</u>
	<u>5,935,795</u>	<u>5,789,681</u>
EXPENSES		
Program services:		
General education	3,866,082	3,621,286
Special education	1,574,781	1,605,034
Management and general	931,608	809,983
Fundraising	<u>23,712</u>	<u>24,265</u>
	<u>6,396,183</u>	<u>6,060,568</u>
DEFICIT FROM SCHOOL OPERATIONS	<u>(460,388)</u>	<u>(270,887)</u>
SUPPORT AND OTHER INCOME		
Contributions:		
Foundations	10,325	11,486
Donated goods and services	76,049	44,342
Benefit income, net of direct expenses of \$4,504 and \$6,316 for the years ended 2019 and 2018, respectively	3,522	391
Interest income	3,611	1,317
Miscellaneous income	<u>43,504</u>	<u>34,912</u>
	<u>137,011</u>	<u>92,448</u>
CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS	<u>(323,377)</u>	<u>(178,439)</u>
NET ASSETS - BEGINNING OF YEAR	<u>557,826</u>	<u>736,265</u>
NET ASSETS - END OF YEAR	<u>\$ 234,449</u>	<u>\$ 557,826</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, 2019

	No. of Positions	Program Services			Supporting Services			2019
		General	Special	Total	Fundraising	Management	Total	
		Education	Education			and General		
Personnel services costs								
Administrative staff personnel	7	\$ 243,764	\$ 58,793	\$ 302,557	\$ 13,358	\$ 280,389	\$ 293,747	\$ 596,304
Instructional personnel	35	1,500,825	743,153	2,243,978	-	-	-	2,243,978
Non-instructional personnel	8	127,185	24,935	152,120	-	150,633	150,633	302,753
Total salaries and staff	50	1,871,774	826,881	2,698,655	13,358	431,022	444,380	3,143,035
Fringe benefits and payroll taxes		350,648	154,903	505,551	2,502	80,745	83,247	588,798
Retirement		17,089	7,549	24,638	122	3,935	4,057	28,695
Legal services including in-kind		41,001	18,113	59,114	293	9,442	9,735	68,849
Accounting and audit services		14,196	6,271	20,467	101	3,269	3,370	23,837
Other purchased, professional, and consulting services		220,168	51,457	271,625	241	151,635	151,876	423,501
Rent and other facility maintenance expense		773,840	341,854	1,115,694	5,522	178,196	183,718	1,299,412
Repairs and maintenance		33,459	14,781	48,240	239	7,705	7,944	56,184
Insurance		25,428	11,233	36,661	181	5,856	6,037	42,698
Utilities		66,172	29,232	95,404	472	15,238	15,710	111,114
Supplies and materials		130,783	26,043	156,826	-	-	-	156,826
Equipment and furnishings		1,553	686	2,239	11	358	369	2,608
Staff development		8,889	1,743	10,632	-	-	-	10,632
Marketing and recruitment		42,796	17,982	60,778	279	8,989	9,268	70,046
Technology		13,454	5,943	19,397	96	3,098	3,194	22,591
Food service		168,102	32,957	201,059	-	-	-	201,059
Student services		45,428	8,906	54,334	-	-	-	54,334
Office expense		13,213	5,837	19,050	4,598	25,651	30,249	49,299
Depreciation and amortization		24,460	10,806	35,266	175	5,633	5,808	41,074
Other		3,629	1,604	5,233	26	836	862	6,095
		3,866,082	1,574,781	5,440,863	28,216	931,608	959,824	6,400,687
Less: expenses deducted directly from revenues on the statement of activities		-	-	-	(4,504)	-	(4,504)	(4,504)
		\$ 3,866,082	\$ 1,574,781	\$ 5,440,863	\$ 23,712	\$ 931,608	\$ 955,320	\$ 6,396,183

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, 2018

	No. of Positions	Program Services			Supporting Services			2018
		General	Special	Total	Fundraising	Management	Total	
		Education	Education			and General		
Personnel services costs								
Administrative staff personnel	8	\$ 206,507	\$ 52,686	\$ 259,193	\$ 13,809	\$ 249,126	\$ 262,935	\$ 522,128
Instructional personnel	35	1,471,373	783,080	2,254,453	-	-	-	2,254,453
Non-instructional personnel	8	109,536	22,206	131,742	-	130,878	130,878	262,620
Total salaries and staff	51	1,787,416	857,972	2,645,388	13,809	380,004	393,813	3,039,201
Fringe benefits and payroll taxes		328,799	157,825	486,624	2,540	69,903	72,443	559,067
Retirement		15,241	7,316	22,557	118	3,240	3,358	25,915
Legal services including in-kind		28,578	13,718	42,296	221	6,076	6,297	48,593
Accounting and audit services		13,677	6,565	20,242	106	2,908	3,014	23,256
Other purchased, professional, and consulting services		91,194	20,983	112,177	70	126,577	126,647	238,824
Rent and other facility maintenance expense		762,325	365,921	1,128,246	5,890	162,070	167,960	1,296,206
Repairs and maintenance		37,658	18,076	55,734	291	8,006	8,297	64,031
Insurance		23,988	11,515	35,503	185	5,100	5,285	40,788
Utilities		57,083	27,400	84,483	441	12,136	12,577	97,060
Supplies and materials		98,147	19,982	118,129	-	-	-	118,129
Equipment and furnishings		885	425	1,310	7	188	195	1,505
Staff development		5,726	1,161	6,887	-	-	-	6,887
Marketing and recruitment		19,969	9,506	29,475	152	4,185	4,337	33,812
Technology		13,736	6,594	20,330	106	2,920	3,026	23,356
Food service		203,767	41,309	245,076	-	-	-	245,076
Student services		90,599	18,367	108,966	-	-	-	108,966
Office expense		12,399	5,952	18,351	6,412	20,271	26,683	45,034
Depreciation and amortization		26,651	12,793	39,444	206	5,666	5,872	45,316
Other		3,448	1,654	5,102	27	733	760	5,862
		3,621,286	1,605,034	5,226,320	30,581	809,983	840,564	6,066,884
Less: expenses deducted directly from revenues on the statement of activities		-	-	-	(6,316)	-	(6,316)	(6,316)
		\$ 3,621,286	\$ 1,605,034	\$ 5,226,320	\$ 24,265	\$ 809,983	\$ 834,248	\$ 6,060,568

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

HEKETI COMMUNITY CHARTER SCHOOL
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from operating revenue and other income	\$ 6,153,425	\$ 5,759,617
Interest income	3,611	1,317
Cash paid to employees and suppliers	<u>(6,073,296)</u>	<u>(5,651,880)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	83,740	109,054
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	<u>(11,549)</u>	<u>(19,734)</u>
NET INCREASE IN CASH	72,191	89,320
CASH AND CASH - RESTRICTED - BEGINNING OF YEAR	<u>1,941,530</u>	<u>1,852,210</u>
CASH AND CASH - RESTRICTED - END OF YEAR	<u>\$ 2,013,721</u>	<u>\$ 1,941,530</u>

Reconciliation of change in net assets to net cash provided by operating activities:

Change in net assets	\$ (323,377)	\$ (178,439)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	41,074	45,316
Deferred rent	293,257	311,692
Changes in operating assets and liabilities:		
Grants and other receivables	162,881	(35,694)
Prepaid expenses	(75,501)	3,165
Security deposits	7,578	5,600
Accounts payable and accrued expenses	(9,428)	(609)
Accrued salary and other payroll related expenses	(10,142)	(818)
Deferred revenue	<u>(2,602)</u>	<u>(41,159)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 83,740</u>	<u>\$ 109,054</u>

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:

Cash and Cash Equivalents Consist of:

Cash	\$ 1,938,721	\$ 1,866,530
Cash - restricted	<u>75,000</u>	<u>75,000</u>
Total	<u>\$ 2,013,721</u>	<u>\$ 1,941,530</u>

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

HEKETI COMMUNITY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2019 AND 2018

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 November 15, 2015, the School received a two year extension to their charter term to July 31, 2017. 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 five. 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.

The New York City Department of Education ("NYCDOE") provides free lunches and transportation directly to a majority of the School's students.

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 the 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 two classes of net assets – with donor restrictions or without donor restrictions – be displayed in a statement of financial position and that the amount of change in each of those classes of net assets be displayed in a statement of activities.

These classes are defined as follows:

Net Assets with Donor Restrictions consist of contributions and other inflows of assets whose use is subject to donor-imposed restrictions that are more specific than broad limits reflecting the nature of the not-for-profit entity, the environment in which it operates and the purposes specified in its articles of incorporation or bylaws or comparable documents. Donor-imposed restrictions may be temporary in nature, such as stipulating that resources may be used only after a specified date or limited to specific programs or services. Certain donor imposed restrictions are perpetual in nature.

Net Assets without Donor Restrictions consist of contributions and other inflows of assets whose use is not subject to donor-imposed restrictions. This net asset category includes both contributions not subject to donor restrictions and exchange transactions, such as state and local per pupil operating revenue.

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.

HEKETI COMMUNITY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2019 AND 2018

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 \$77,163 and \$240,044 at June 30, 2019 and 2018, 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, 2019 and 2018. 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, if any, are reflected as refundable advances from state and local government grants in the accompanying statement of financial position.

Donated Goods and Services

Donated goods and services are recorded as contributions in-kind, at their fair value, provided the goods and 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 goods and services that are an integral part of its operations. Donated goods and services received are estimated at \$76,049 and \$44,342 for the years ended June 30, 2019 and 2018.

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 (See Note 4). The School has established a \$3,000 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, 2019 and 2018.

Advertising

The School expenses advertising costs as incurred. The School incurred \$4,495 and \$344 of advertising costs for the years ended June 30, 2019 and 2018, respectively, which is included in the accompanying statements of functional expenses under marketing and recruitment.

HEKETI COMMUNITY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2019 AND 2018

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Functional Allocation of Expenses

The statements of functional expenses present expenses by function and natural classification. Expenses that can be directly identified with the program or supporting service are reported as expenses of those functional areas. Other expenses are allocated among program and supporting services 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 October 28, 2019, which is the date the financial statements were available to be issued.

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 jurisdictions. With few exceptions, the School is no longer subject to federal income tax examinations for fiscal years before 2016.

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 income tax as other expense.

The School is subject to tax reportable on Form 990T consisting of unrelated business income if they have provided pre-tax transportation benefits to employees.

Adopted Accounting Pronouncements

Financial Statement Presentation

During the year ended June 30, 2019, the School adopted Accounting Standards Update 2016-14, Not-for-Profit Entities (Topic 958) – *Presentation of Financial Statements of Not-for-Profit Entities*. The update amends the current reporting model for not-for-profit organizations and enhances their required disclosures. The major changes include, but are not limited to: (a) requiring the presentation of two classes of net assets now titled “net assets without donor restrictions” and “net assets with donor restrictions,” (b) modifying the presentation of underwater endowment funds and related disclosures, (c) requiring the use of the placed in service approach to recognize the expirations on gifts used to acquire or construct long-lived assets absent explicit donor restrictions otherwise, (d) requiring the presentation of an analysis of expenses by function and nature, (e) requiring the disclosure of information regarding liquidity and availability of resources, and (f) presenting investment return net of external and direct internal investment expenses. In addition, the update removes the requirement that

HEKETI COMMUNITY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2019 AND 2018

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Adopted Accounting Pronouncements (continued)

statements of cash flows using the direct method also present a reconciliation consistent with the indirect method. The School has applied the update retrospectively to all periods presented and adjusted the presentation of these financial statements accordingly. As a result, the School reclassified amounts formerly classified as unrestricted net assets to net assets without donor restrictions. The adoption of this update had no other material effect on the School's financial position and changes in net assets. In addition, the School has elected to continue to present a reconciliation in the statement of cash flows consistent with the indirect method.

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. Also, the FASB has issued amendments to the update with practical expedients related to land easements and lessor accounting. The School is currently evaluating the effect the update will have on its financial statements but expects upon adoption that the update will have a material effect on the School's financial condition due to the recognition of a right-of-use asset and related lease liability. The School does not anticipate the update having a material effect on the School's results of operations or cash flows, though such an effect is possible.

The update originally required transition to the new lease guidance using a modified retrospective approach which would reflect the application of the update as of the beginning of the earliest comparative period presented. A subsequent amendment to the update provides an optional transition method that allows entities to initially apply the new lease guidance with a cumulative-effect adjustment to the opening balance of equity in the period of adoption. If this optional transition method is elected, after the adoption of the new lease guidance, the School's presentation of comparative periods in the financial statements will continue to be in accordance with current lease accounting. The School is evaluating the method of adoption it will elect. The update is effective for fiscal years beginning after December 15, 2020, and for interim periods within fiscal years beginning after December 15, 2021, with early application permitted.

3. LIQUIDITY MANAGEMENT AND AVAILABILITY OF RESOURCES

The School maintains a policy of structuring its financial assets to be available as its general expenditures, liabilities, and other obligations come due. The School's management meets monthly to address projected cash flows to meet its operational expenditures. The School also invests cash in excess of monthly requirements in money market bank accounts. The School's financial assets available within one year of the statement of financial position date for general expenditures are as follows:

HEKETI COMMUNITY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

3. LIQUIDITY MANAGEMENT AND AVAILABILITY OF RESOURCES (CONTINUED)

	2019	2018
Cash	\$ 1,938,721	\$ 1,866,530
Cash - restricted	75,000	75,000
Grants and other receivables	77,163	240,044
Total financial assets	2,090,884	2,181,574
Less amounts unavailable for general expenditures within one year due to:		
Restricted by contract with time or purpose	(75,000)	(75,000)
Total financial assets available to management for general expenditures within one year	\$ 2,015,884	\$ 2,106,574

At June 30, 2019 and 2018, the School has no board designated net assets.

4. PROPERTY AND EQUIPMENT

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

	2019	2018	<u>Estimated Useful Lives</u>
Office furniture	\$ 16,440	\$ 12,840	5 years
Equipment	41,642	33,693	3 years
Technology infrastructure	30,364	30,364	4 years
Classroom furniture	130,519	130,519	5 years
Computers	63,921	63,921	4 years
Website	1,100	1,100	3 years
	283,986	272,437	
Less: Accumulated depreciation and amortization	(248,121)	(207,047)	
	\$ 35,865	\$ 65,390	

Depreciation and amortization expense for the years ended June 30, 2019 and 2018 was \$41,074 and \$45,316, respectively.

5. 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:

HEKETI COMMUNITY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2019 AND 2018

5. COMMITMENTS (CONTINUED)

June 30,	
2020	\$ 958,981
2021	978,160
2022	997,724
2023	1,017,678
2024	1,038,032
Thereafter	<u>34,055,581</u>
Total	<u>\$ 39,046,156</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, 2019 and 2018, the School incurred \$1,233,434 in rent expense, which is included in the accompanying statements of functional expenses under rent and other facility maintenance expense. The School has a security deposit in the amount of \$250,000 in connection with this lease.

6. 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.

7. PENSION PLAN

The School adopted a 403(B) plan (the "Plan") which covers most of the employees. The Plan is a defined contribution plan. Full time employees are eligible to enroll in the Plan on a monthly date with no minimum service time required. The Plan provides for the School to contribute up to 2% of participating employees' salaries after 2 years of service. For the years ended June 30, 2019 and 2018, pension expense for the School was \$28,695 and \$25,915, respectively, which is included in fringe benefits and payroll taxes in the accompanying statements of functional expenses.

8. 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 78% of its total revenue and support from per pupil funding from the NYCDOE during each of the years ended June 30, 2019 and 2018.
- C. The School's grants and other receivables consist of three major grantors at June 30, 2019. The School's grants and other receivables consist of three major grantors at June 30, 2018.



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, 2019, 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 28, 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 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 October 28, 2019.

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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
October 28, 2019

HEKETI COMMUNITY CHARTER SCHOOL

COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

October 28, 2019



October 28, 2019

To the Audit Committee
Heketi Community Charter School

We have audited the financial statements of Heketi Community Charter School (the “School”) for the years ended June 30, 2019 and 2018 and are prepared to issue our report thereon dated October 28, 2019. 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 9, 2019, our responsibility, as described by professional standards, is to form and 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 2019.

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.

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As described in Note 2 to the financial statements, during the year ended June 30, 2019, the School adopted Accounting Standards Update 2016-14, Not-for-Profit Entities (Topic 958) – *Presentation of Financial Statements of Not-for-Profit Entities*. The update amends the current reporting model for not-for-profit organizations and enhances their required disclosures. The major changes include, but are not limited to: (a) requiring the presentation of two classes of net assets now entitled “net assets without donor restrictions” and “net assets with donor restrictions,” (b) modifying the presentation of underwater endowment funds and related disclosures, (c) requiring the use of the placed in service approach to recognize the expirations on gifts used to acquire or construct long-lived assets absent explicit donor restrictions otherwise, (d) requiring the presentation of an analysis of expenses by function and nature, (e) requiring the disclosure of information regarding liquidity and availability of resources, and (f) presenting investment return net of external and direct internal investment expenses. In addition, the update removes the requirement that statements of cash flows using the direct method also present a reconciliation consistent with the indirect method. The School has applied the update retrospectively to all periods presented and adjusted the presentation of these financial statements accordingly. As a result, the School reclassified amounts formerly classified as unrestricted net assets to net assets without donor restrictions. The adoption of this update had no other material effect on the School’s financial position and changes in net assets. In addition, the School has elected to continue to present a reconciliation in the statement of cash flows consistent with the direct method.

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, 2019, Heketi Community Charter School recorded grants receivable of \$20,430. 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 6 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:

There was one audit adjustment for \$4,162 that was proposed and corrected during the period that had no effect on net assets. That adjustment was to reclassify the State School Food Program funding portion from the Federal School Food Program funding.

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 October 28, 2019.

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.

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



MBAF CPAs, LLC
440 Park Avenue South, 3rd Floor
New York, NY 10016

This representation letter is provided in connection with your audit of the financial statements of Heketi Community Charter School (the "School"), which comprise the statements of financial position as of June 30, 2019 and 2018, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements, for the purpose of expressing an opinion as to whether the financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States ("U.S. GAAP").

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement. An omission or misstatement that is monetarily small in amount could be considered material as a result of qualitative factors.

We confirm, to the best of our knowledge and belief as of the date of this letter as signed below, the following representations made to you during your audit.

Financial Statements

1. We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated April 9, 2019, including our responsibility for the preparation and fair presentation of the financial statements.
2. The financial statements referred to above are fairly presented in conformity with U.S. GAAP and include all proper classifications and note disclosure.
3. We acknowledge our responsibility 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.
4. We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
5. With regard to nonaudit services performed by you, we acknowledge our responsibility to:
 - a. Assume all management responsibilities;
 - b. Oversee the services by designating an individual who possesses suitable skill, knowledge, or experience;
 - c. Evaluate the adequacy and results of the services performed; and
 - d. Accept responsibility for the results of the services.
6. Significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.
7. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of U.S. GAAP.

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8. All events subsequent to the date of the financial statements and for which U.S. GAAP requires adjustment or disclosure have been adjusted or disclosed.
9. The School has no plans or intentions that may materially affect the carrying value or classifications of assets, liabilities, or net asset balances.
10. The effects of all known actual or possible litigation, claims, and assessments have been accounted for and disclosed in accordance with U.S. GAAP.
11. Material concentrations have been appropriately disclosed in accordance with U.S. GAAP.
12. Guarantees, whether written or oral, under which the School is contingently liable, have been properly recorded or disclosed in accordance with U.S. GAAP.

Information Provided

13. We have included in the financial statements all assets and liabilities under the School's control.
14. We have provided you with:
 - a. Access to all information, of which we are aware, that is relevant to the preparation and fair presentation of the financial statements, such as records, documentation, and other matters.
 - b. Additional information that you have requested from us for the purpose of the audit.
 - c. Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
15. All material transactions have been recorded in the accounting records and are reflected in the financial statements.
16. We have provided you with all board minutes as of the report date of the financial statements and there are no other minutes.
17. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
18. We have no knowledge of any fraud or suspected fraud that affects the organization and involves:
 - a. Management,
 - b. Employees who have significant roles in internal control, or
 - c. Others where the fraud could have a material effect on the financial statements.
19. We have no knowledge of any allegations of fraud or suspected fraud affecting the School's financial statements communicated by employees, former employees, grantors, regulators, or others.
20. We have no knowledge of any instances of noncompliance or suspected noncompliance with laws and regulations whose effects should be considered when preparing financial statements.
21. There were no designations of net assets disclosed to you that were not properly authorized and approved, or reclassifications of net assets that have not been properly reflected in the financial statements.

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22. We have complied with all restrictions on resources (including donor restrictions) and all aspects of contractual and grant agreements that would have a material effect on the financial statements in the event of noncompliance. This includes complying with donor requirements to maintain a specific asset composition necessary to satisfy their restrictions.
23. We have disclosed to you all known actual or possible litigation, claims, and assessment whose effects should be considered when preparing the financial statements.
24. Contributed services are only recorded as contributions in kind, at their fair value, provided they meet the criteria for recognition. Donated services and goods received are estimated at \$76,049 for the fiscal year ended June 30, 2019.
25. We are not aware of any pending or threatened litigation, claims, or assessments or unasserted claims or assessments that are required to be accrued or disclosed in the financial statements in accordance with U.S. GAAP, and we have not consulted a lawyer concerning litigation, claims, or assessments.
26. During the year ended June 30, 2019, the NYCDOE owed the School Title I, Title II, Title IV, Per Pupil, and E-rate grant funds totaling \$16,838.
27. We have approved the allocation of functional expense between program service performances, management and general and fundraising expenses. This allocation has been properly disclosed in the financial statements.
28. We are aware and are in compliance with the Federal Funding Accountability and Transparency Act reporting requirements and reporting timeline for awards that fall within the tiered reporting requirements.
29. We have disclosed to you the identity of the School's related parties and all the related party relationships and transactions of which we are aware.
30. The School has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.
31. There have been no communications from regulatory agencies concerning noncompliance with or deficiencies in accounting, internal control, or financial reporting practices.
32. There are no:
 - a. Violations or possible violations of laws or regulations, or provisions of contracts or grant agreements whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency.
 - b. Unasserted claims or assessments that our lawyer has advised are probable of assertion and must be disclosed in accordance with FASB Accounting Standards Codification TM (ASC) 450, *Contingencies*.
 - c. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by ASC-450.
33. We are responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to us; and we have identified and disclosed to you all laws, regulations and provisions of contracts and grant agreements that we believe have a direct and material effect on

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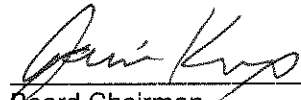
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COMMUNITY CHARTER SCHOOL

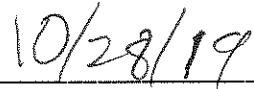
the determination of financial statement amounts or other financial data significant to the audit objectives.

34. Heketi Community Charter School is an exempt organization under Section 501 (c) (3) of the Internal Revenue Code. Any activities of which we are aware that would jeopardize the School's tax-exempt status, and all activities subject to tax on unrelated business income or excise or other tax, have been disclosed to you. All required filings with tax authorities are up-to-date.
35. We acknowledge our responsibility for presenting the financial statements in accordance with U.S. GAAP, and we believe the financial statements, including its form and content, is fairly presented in accordance with U.S. GAAP. The methods of measurement and presentation of the financial statements have not changed from those used in the prior period, and we have disclosed to you any significant assumptions or interpretations underlying the measurement and presentation of the supplementary information.
36. We have approved all standard, adjusting or correcting journal entries to our financial statements proposed to you.
37. We have approved a draft of the financial statements.
38. We acknowledge the communication to the board of trustees which includes your recommendations.
39. We are aware that Marc Taub is the engagement partner and is responsible for supervising the engagement and signing the report.

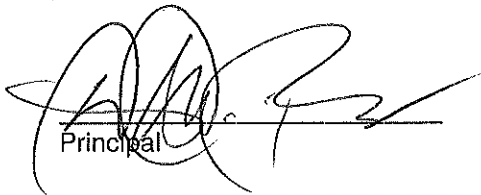
Very truly yours,
Heketi Community Charter School




Board Chairman



(Date)



Principal



(Date)

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