

MANHATTAN CHARTER SCHOOL II

FINANCIAL STATEMENTS

JUNE 30, 2013

MANHATTAN CHARTER SCHOOL II
FINANCIAL STATEMENTS
JUNE 30, 2013

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FRUCHTER ROSEN & COMPANY, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

156 WEST 56TH STREET

NEW YORK, NEW YORK 10019

TEL: (212) 957-3600

FAX: (212) 957-3696

INDEPENDENT AUDITORS' REPORT

TO THE BOARD OF TRUSTEES OF
MANHATTAN CHARTER SCHOOL II

Report on the Financial Statements

We have audited the accompanying financial statements of Manhattan Charter School II (the "School") (a not-for-profit corporation), which comprise the statement of financial position as of June 30, 2013, and the related statements of activities, functional expenses, and cash flows for the period from September 13, 2011 (inception) to June 30, 2013, 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the School as of June 30, 2013, and the changes in its net assets and its cash flows for the period from September 13, 2011 (inception) to June 30, 2013 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 8, 2013, on our consideration of the School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control over financial reporting and compliance.


FRUCHTER ROSEN & COMPANY, P.C.
Certified Public Accountants

New York, New York
October 8, 2013

MANHATTAN CHARTER SCHOOL II
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2013

ASSETS	
Current assets:	
Cash and cash equivalents	\$ 234,317
Grants and contracts receivable	68,147
Prepaid expenses and other current assets	<u>10,710</u>
Total current assets	313,174
Property and equipment, net of accumulated depreciation and amortization of \$39,986	191,390
Restricted cash	<u>25,002</u>
TOTAL ASSETS	<u><u>\$ 529,566</u></u>
LIABILITIES AND UNRESTRICTED NET ASSETS	
Current liabilities:	
Accounts payable and accrued expenses	\$ 26,770
Accrued payroll and payroll taxes	141,022
Due to related party	<u>146,615</u>
Total current liabilities	314,407
Unrestricted net assets	<u>215,159</u>
TOTAL LIABILITIES AND UNRESTRICTED NET ASSETS	<u><u>\$ 529,566</u></u>

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

MANHATTAN CHARTER SCHOOL II
STATEMENT OF ACTIVITIES
FOR THE PERIOD FROM SEPTEMBER 13, 2011 (INCEPTION) TO JUNE 30, 2013

Revenue and support:	
State and local per pupil operating revenue	\$ 1,273,644
Federal grants	451,521
State and city grants	95,140
Contributions and grants	70,000
Donated goods	37,120
Interest	<u>2</u>
Total revenue and support	<u>1,927,427</u>
Expenses:	
Program services:	
Regular education	1,240,516
Special education	184,958
Extended day	<u>17,879</u>
Total program services	1,443,353
Supporting services:	
Management and general	255,896
Fundraising	<u>13,019</u>
Total expenses	<u>1,712,268</u>
Changes in unrestricted net assets	215,159
Unrestricted net assets - beginning of period	<u>-</u>
Unrestricted net assets - end of period	<u><u>\$ 215,159</u></u>

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

MANHATTAN CHARTER SCHOOL II
STATEMENT OF CASH FLOWS
FOR THE PERIOD FROM SEPTEMBER 13, 2011 (INCEPTION) TO JUNE 30, 2013

CASH FLOWS FROM OPERATING ACTIVITIES:	
Changes in unrestricted net assets	\$ 215,159
Adjustments to reconcile changes in unrestricted net assets to net cash provided by operating activities:	
Depreciation and amortization	39,986
Donated property and equipment	(20,581)
Changes in certain assets and liabilities:	
(Increase) in grants and contracts receivable	(68,147)
(Increase) in prepaid expenses and other current assets	(10,710)
Increase in due to related party	146,615
Increase in accounts payable and accrued expenses	26,769
Increase in accrued payroll and payroll taxes	141,022
	<hr/>
NET CASH PROVIDED BY OPERATING ACTIVITIES	470,113
	<hr/>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Increase in restricted cash	(25,002)
Purchase of property and equipment	(210,794)
	<hr/>
NET CASH (USED IN) INVESTING ACTIVITIES	(235,796)
	<hr/>
NET INCREASE IN CASH AND CASH EQUIVALENTS	234,317
CASH AND CASH EQUIVALENTS - BEGINNING OF PERIOD	-
	<hr/>
CASH AND CASH EQUIVALENTS - END OF PERIOD	\$ 234,317
	<hr/> <hr/>

NON-CASH INVESTING ACTIVITIES

For the period from September 13, 2011 (inception) to June 30, 2013, the School received \$20,581 of capitalized donated property.

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

MANHATTAN CHARTER SCHOOL II
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 1 - PRINCIPAL BUSINESS ACTIVITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization

Manhattan Charter School II (the "School") is a New York State, not-for-profit educational corporation that was incorporated to operate a Charter School pursuant to Article 56 of the Education Law of the State of New York. The School was granted a provisional charter on September 13, 2011 valid for a term of five years and renewable upon expiration by the Board of Regents of the University of the State of New York. The School's mission is to prepare its students to achieve high academic levels in the four core subject areas, communicate effectively in verbal, mathematical and musical languages, and to apply critical thinking processes and ethical standards to learning, living and problem solving. Classes commenced in September 2012 and the School provided education to approximately 88 students in kindergarten and 1st grades during the 2012-2013 academic year.

The School shares space with a New York City public school beginning in August 2012. The School is not responsible for rent, utilities, custodial services, maintenance and school safety services other than security related to the School's programs that take place outside the district's school day.

Food and Transportation Services

The New York City Department of Education provides free lunches and reduced-price lunches and transportation to a majority of the School's students. Such costs are not included in these financial statements. The School covers the cost of lunches for children entitled to reduced – priced and free lunches. The School also receives reimbursement from parents who are charged full price for these lunches.

Tax Status

The School is exempt from Federal income tax under Section 501(a) of the Internal Revenue Code as an organization described in Section 501(c)(3) and a similar provision under New York State income tax laws. The School has also been classified as an entity that is not a private foundation within the meaning of Section 509(a) and qualifies for deductible contributions as provided in section 170(b)(1)(A)(ii). The School did not have net unrelated business income for the period from September 13, 2011 (inception) to June 30, 2013.

The School's accounting policy provides that a tax expense or benefit from an uncertain tax position may be recognized when it is more likely than not that the position will be sustained upon examination, including resolutions of any related appeals or litigation processes, based on the technical merits. The School has no uncertain tax position resulting in an accrual of tax expense or benefit.

IRS Forms 990 filed by the School are subject to examination by the Internal Revenue Service up to three years from the extended due date of each return. All Forms 990 filed by the School are subject to examination.

MANHATTAN CHARTER SCHOOL II
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 1 - PRINCIPAL BUSINESS ACTIVITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation

Financial statement presentation follows the requirements of the Financial Accounting Standards Board (“FASB”) in its Accounting Standards Codification (“ASC”) 958-205. Under ASC 958-205, the School is required to report information regarding its financial position and activities according to three classes of net assets; unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. The net assets classifications are described as follows:

Unrestricted

Unrestricted net assets of the School consists of cash and otherwise unrestricted amounts that are available for use in carrying out the objectives of the School and include those expendable resources, which have been designated for special use by the School or the Board of Trustees.

Temporarily Restricted

Temporarily restricted net assets of the School represent those amounts that have been limited by donor-imposed stipulations that either expire with the passage of time or can be fulfilled and removed by actions of the School. 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 and changes in net assets, as net assets released from restrictions.

Permanently Restricted

Permanently restricted net assets of the School result from contributions whose use has been permanently limited by donor-imposed restrictions. Such assets include contributions required to be invested in perpetuity, the income from which is available to support charitable purposes designated by the donors.

The School had no temporarily or permanently restricted net assets at June 30, 2013.

Revenue and Support

Contributions are recognized when the donor makes a promise to give to the School that is, in substance, unconditional. Grants and other contributions of cash are reported as temporarily restricted support if they are received with donor stipulations. Restricted contributions and grants that are made to support the School’s current year activities are recorded as unrestricted revenue. Contributions of assets other than cash are recorded at their estimated fair value at the date of donation.

Revenue from the state and local governments resulting from the School’s charter status and based on the number of students enrolled is recorded when services are performed in accordance with the charter agreement. Federal and other state and local funds are recorded when expenditures are incurred and billable to the government agency.

MANHATTAN CHARTER SCHOOL II
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 1 - PRINCIPAL BUSINESS ACTIVITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Cash and Cash Equivalents

For the purpose of the statements of cash flows, the School considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Concentration of Credit Risk

Financial instruments which potentially subject the School to concentrations of credit risk are cash and cash equivalents. The School places its cash and cash equivalents on deposit in what it believes to be highly credited financial institutions. Cash balances may exceed the FDIC insured levels of \$250,000 per institution at various times during the year. The School believes that there is little risk in any losses and has not experienced any losses in such accounts.

Property and Equipment

Purchased property and equipment are recorded at cost. Maintenance and repairs are expensed as incurred. Depreciation is provided on the straight line method over the estimated useful lives as follows:

Furniture and fixtures	7 years
Computers and equipment	3 and 5 years
Software	5 years

Restricted Cash

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

Refundable Advances

The School records certain government operating revenue as refundable advances until related services are performed, at which time they are recognized as revenue.

MANHATTAN CHARTER SCHOOL II
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 2 - GRANTS AND CONTRACTS RECEIVABLE

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

NOTE 3 - PROPERTY AND EQUIPMENT

Property and equipment consists of the following as of June 30, 2013:

Furniture and fixtures	\$ 28,653
Computers and equipment	109,154
Software	3,690
Leasehold Improvements	<u>89,879</u>
	231,376
Less: Accumulated depreciation and amortization	<u>39,986</u>
	<u>\$ 191,390</u>

Depreciation and amortization expense was \$39,986 for the period from September 13, 2011 (inception) to June 30, 2013.

NOTE 4 - REVENUE CONCENTRATION

The School receives a substantial portion of its support and revenue from the New York City Department of Education. If the charter school laws were modified, reducing or eliminating these revenues, the School's finances could be materially adversely affected.

NOTE 5 - CONTINGENCY

Certain grants and contracts may be subject to audit by the funding sources. Such audits might result in disallowances of costs submitted for reimbursement. Management is of the opinion that such cost disallowances, if, any will not have a material effect on the accompanying financial statements. Accordingly, no amounts have been provided in the accompanying financial statements for such potential claims.

MANHATTAN CHARTER SCHOOL II
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 6 - FUNCTIONAL ALLOCATION OF EXPENSE

Directly identifiable expenses are charged to programs and supporting services. Expenses related to more than one function are charged to programs and supporting services on the basis of periodic time and expense studies. Management and general expense includes those expenses that are not directly identifiable with any other specific function, but provide for the overall support and direction of the School.

NOTE 7 - DUE TO RELATED PARTY

The School is an affiliate of Manhattan Charter School (“MCS”), a New York State, not-for-profit corporation who both share common management and board members. For operational efficiency and purchasing power, the School shares expenses with MCS. Balance due to MCS at June 30, 2013 was \$146,615. For the period from September 13, 2011 (inception) to June 30, 2013, MCS charged the School \$553,934 for shared expenses paid on their behalf.

NOTE 8 - DONATED GOODS

The School received smart boards, computer, copier, printers and supplies at no charge. The value of these goods meets the criteria for recognition in the financial statements and was recorded at a fair value of \$37,120 for the period from September 13, 2011 (inception) to June 30, 2013.

NOTE 9 - RETIREMENT PLAN

The School maintains a retirement plan qualified under the Internal Revenue Code 403(b) for the benefit its eligible employees. Under the plan, the School provided matching contributions of 4% to the plan. The amount charged to operations for matching contributions to the plan was \$6,448 for the period from September 13, 2011 (inception) to June 30, 2013.

NOTE 10 - SUBSEQUENT EVENTS

In preparing these financial statements, the School has evaluated events and transactions for potential recognition or disclosure through October 8, 2013, the date the financial statements were available to be issued.

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CERTIFIED PUBLIC ACCOUNTANTS

156 WEST 56TH STREET

NEW YORK, NEW YORK 10019

TEL: (212) 957-3600

FAX: (212) 957-3696

INDEPENDENT AUDITORS' REPORT
ON SUPPLEMENTARY INFORMATION

TO THE BOARD OF TRUSTEES
MANHATTAN CHARTER SCHOOL II

We have audited the financial statements of Manhattan Charter School II as of June 30, 2013 and for the period from September 13, 2011 (inception) to June 30, 2013, and have issued our report thereon dated October 8, 2013, which contained an unmodified opinion on those financial statements. Our audit was performed for the purpose of forming an opinion on the financial statements as a whole. The schedule of functional expenses is presented for the purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.


FRUCHTER ROSEN & COMPANY, P.C.
Certified Public Accountants

New York, New York
October 8, 2013

MANHATTAN CHARTER SCHOOL II
SCHEDULE OF FUNCTIONAL EXPENSES
FOR THE PERIOD FROM SEPTEMBER 13, 2011 (INCEPTION) TO JUNE 30, 2013

	Program Services			Supporting Services			
	Regular Education	Special Education	Extended Day	Total	Management and General	Fundraising	Total
Salaries and wages	\$ 824,773	\$ 111,035	\$ -	\$ 935,808	\$ 145,414	\$ 10,934	\$ 1,092,156
Employee benefits and payroll taxes	91,570	12,328	-	103,898	16,144	1,214	121,256
Professional and accounting services	90,376	25,260	-	115,636	72,134	-	187,770
Professional development	8,478	1,141	-	9,619	4,701	-	14,320
Consultants	13,315	2,164	-	15,479	1,165	-	16,644
Leased equipment	1,023	166	-	1,189	91	-	1,280
Supplies and materials	32,441	5,490	-	37,931	5,265	406	43,602
Curriculum and classroom	53,936	7,261	-	61,197	-	-	61,197
Travel and conferences	3,368	453	17,879	21,700	858	95	22,653
Insurance	17,986	2,905	-	20,891	1,520	-	22,411
Postage and printing	313	51	-	364	23	3	390
Technology and communications	29,336	4,767	-	34,103	2,199	367	36,669
Dues and subscriptions	719	117	-	836	63	-	899
Food service	871	119	-	990	-	-	990
Student and staff recruiting and retention	36,034	5,855	-	41,889	3,153	-	45,042
Depreciation and amortization	31,989	5,198	-	37,187	2,799	-	39,986
Facility	3,988	648	-	4,636	349	-	4,985
Miscellaneous	-	-	-	-	18	-	18
Total	\$ 1,240,516	\$ 184,958	\$ 17,879	\$ 1,443,353	\$ 255,896	\$ 13,019	\$ 1,712,268

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156 WEST 56TH STREET

NEW YORK, NEW YORK 10019

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FAX: (212) 957-3696

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 OF
MANHATTAN CHARTER SCHOOL II

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Manhattan Charter School II (the "School"), which comprise the statement of financial position as of June 30, 2013, and the related statements of activities, and cash flows for the period from September 13, 2011 (inception) to June 30, 2013, and the related notes to the financial statements, and have issued our report thereon dated October 8, 2013.

Internal Control Over Financial Reporting

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

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

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

TO THE BOARD OF TRUSTEES OF
MANHATTAN CHARTER SCHOOL II

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the School's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.


FRUCHTER ROSEN & COMPANY, P.C.
Certified Public Accountants

New York, New York
October 8, 2013

FRUCHTER ROSEN & COMPANY, P.C.
CERTIFIED PUBLIC ACCOUNTANTS
156 WEST 56TH STREET
NEW YORK, NEW YORK 10019

TEL: (212) 957-3600
FAX: (212) 957-3696

October 8, 2013

To the Board of Trustees
Manhattan Charter School II
100 Attorney Street
New York, NY 10002

In planning and performing our audit of the financial statements of Manhattan Charter School II (the "School") as of June 30, 2013 and for the period from September 13, 2011 (inception) to June 30, 2013, in accordance with auditing standards generally accepted in the United States of America, we considered the School's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control. Accordingly, we do not express an opinion on the effectiveness of the School's internal control.

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

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

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

We appreciate your cooperation and the assistance we received during the course of our audit.


FRUCHTER ROSEN & COMPANY, P.C.
Certified Public Accountants

New York, New York
October 8, 2013

FRUCHTER ROSEN & COMPANY, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

156 WEST 56TH STREET
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October 8, 2013

To the Board of Trustees
Manhattan Charter School II

We have audited the financial statements of Manhattan Charter School II (the "School") for the period from September 13, 2011 (inception) to June 30, 2013, and have issued our report thereon dated October 8, 2013. Professional standards require that we provide you with the following information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated March 8, 2013, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements 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.

As part of our audit, we will consider the internal control of the School. Such considerations will be solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed test of the School's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Planned Scope of the Audit

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit involved judgment about the number of transactions to be examined and the areas to be tested.

Our audit includes obtaining an understanding of the School and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing, and extent of further audit procedures. Material misstatements may result from (1) errors, (2) fraudulent financial reporting, (3) misappropriation of assets, or (4) violations of laws or governmental regulations that are attributable to the entity or to acts by management or employees acting on behalf of the School. We will communicate any internal control related matters that are required to be communicated under professional standards.

We performed our audit according to the plan previously communicated to you in our engagement letter. Discussions were held with management on various dates throughout the audit process.

Other Information in Documents Containing Audited Financial Statements

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with U.S. generally accepted accounting principles, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Manhattan Charter School II are described in Note 1 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. All significant transactions have been recognized in the financial statements in the proper period.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

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. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

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.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 8, 2013.

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.

Other Audit Findings or Issues

Throughout the year, routine discussions regarding a variety of matters, including the application of accounting principles and auditing standards, were held with management in connection with transactions that have occurred, transactions that are contemplated, or reassessment of current circumstances. Such discussions have been helpful in conducting the audit.

We have issued a separate report to you, also dated October 8, 2013, containing our comments on Manhattan Charter School II's internal control.

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

Very truly yours,


FRUCHTER ROSEN & COMPANY, P.C.
Certified Public Accountants

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CERTIFIED PUBLIC ACCOUNTANTS

156 WEST 56TH STREET

NEW YORK, NEW YORK 10019

TEL: (212) 957-3600

FAX: (212) 957-3696

INDEPENDENT ACCOUNTANT'S REPORT ON
APPLYING AGREED UPON PROCEDURES

To the Board of Trustees of Manhattan Charter School II:

We have performed the procedures identified below, which were agreed to by the management of Manhattan Charter School II (the "School") and the New York State Education Department ("NYSED") solely to assist the specified parties in evaluating the School's assertion to NYSED that it has maintained compliance with the requirements of the CSP grant and Federal and NYSED guidelines in managing the CSP grant.

This agreed-upon procedures engagement was performed in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the specific users of the report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures we performed and our results are as follows:

Procedure #1: We will obtain the detail of expenditures incurred for the period under review relating to the CSP grant from the School's accounting software and reconcile to the grant revenue recorded by the School. If the CSP grant revenue does not equal the grant expenditures, we will investigate the differences.

Result: No exceptions noted.

Procedure #2: We will obtain the NYSED approved CSP grant award information, including the budget and any amendments, to determine if the revenue and expenditures recorded for the period appear reasonable.

Result: No exceptions noted.

Procedure #3: We will select a sample from the detail of expenditures obtained in Procedure #1.

- a. Payroll – We will select 10 items or 10% of the total number of payroll items charged to the grant, whichever is less.
- b. Other expenses – We will select 10 items or 10% of the total number of items charged to the grant, whichever is less.

- c. Using the above selected items, we will:
- i. Determine if the expenditure is in accordance with the purpose of the grant and that pre-opening expenditures are charged to pre-opening periods.
 - ii. Determine if the expenditure falls into an approved budget category.
 - iii. Determine if the expenditure was charged to the appropriate fiscal period.

Result: No exceptions noted.

Procedure #4: We will obtain FS-25 form(s) submitted to NYSED during the period under review and perform the following:

- a. Trace expenditures selected in Procedure #3 to requests for reimbursement. Determine that items requested for reimbursement had previously been expended or were expended within a month following the request for reimbursement. If items have not yet been requested for reimbursement, inquire of responsible School officials as to the plan for requesting reimbursement, and determine if a receivable is recorded, if appropriate.
- b. If FS-25 forms included amounts on Line 4 (Cash Expenditures Anticipated During Next Month), we will select one FS-25 and determine if funds were expended within 1 month following the date of the request.

Result: No exceptions noted.

We were not engaged to, and did not, conduct an examination, the objective of which would be the expression of an opinion on Manhattan Charter School II's compliance with the requirements of the CSP grant. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the use of Manhattan Charter School II and the New York State Education Department, and it is not intended to be and should not be used by anyone other than the specified parties.


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New York, New York
October 8, 2013