

East Harlem Scholars Academy Charter School

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

June 30, 2017

East Harlem Scholars Academy Charter School

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

June 30, 2017

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Independent Auditors' Report

Board of Trustees
East Harlem Scholars Academy Charter School

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

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

Report on Summarized Comparative Statements

We have previously audited the School's June 30, 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 31, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matters

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedules of financial position, activities, functional expenses and cash flows by school as of and for the year ended June 30, 2017 on pages 15-19 are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying schedule of expenditures of federal awards on page 20 as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"), is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 23, 2017 on our consideration of the School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the School's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control over financial reporting and compliance.

PKF O'Connor Davies, LLP

October 23, 2017

East Harlem Scholars Academy Charter School

Statement of Financial Position
June 30, 2017
(with comparative amounts at June 30, 2016)

	<u>2017</u>	<u>2016</u>
ASSETS		
Cash and cash equivalents	\$ 326,000	\$ 1,045,924
Grants and accounts receivable	2,032,578	889,749
Prepaid expenses	10,510	294,056
Restricted cash	75,000	50,000
Property and equipment, net	<u>740,779</u>	<u>137,631</u>
	<u>\$ 3,184,867</u>	<u>\$ 2,417,360</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 922,456	\$ 717,625
Due to East Harlem Tutorial Program	1,492,151	560,852
Due to East Harlem Center, LLC	133,914	-
Deferred rent	<u>304,390</u>	<u>-</u>
Total Liabilities	2,852,911	1,278,477
Net assets, unrestricted	<u>331,956</u>	<u>1,138,883</u>
	<u>\$ 3,184,867</u>	<u>\$ 2,417,360</u>

See notes to financial statements

East Harlem Scholars Academy Charter School

Statement of Activities
 Year Ended June 30, 2017
 (with comparative amounts for the year ended June 30, 2016)

	2017	2016
REVENUE AND SUPPORT		
Public School District -		
State and local per pupil operating revenue	\$ 11,606,387	\$ 9,450,248
Lease assistance	522,562	-
Government grants and contracts	1,755,408	862,569
Contributions	2,087,592	480,000
Other income	13,263	44,647
Total Revenue and Support	15,985,212	10,837,464
EXPENSES		
Program services	14,979,472	9,828,900
Management and general	1,311,770	740,705
Fundraising	500,897	292,226
Total Expenses	16,792,139	10,861,831
Change in Net Assets	(806,927)	(24,367)
NET ASSETS (UNRESTRICTED)		
Beginning of year	1,138,883	1,163,250
End of year	\$ 331,956	\$ 1,138,883

See notes to financial statements

East Harlem Scholars Academy Charter School

Statement of Functional Expenses Year Ended June 30, 2017 (with summarized totals for the year ended June 30, 2016)

	2017							2016	
	Program Services					Management and General	Fundraising	Total	Total
	General Education	Special Education	Pre-K	Supplemental Education	Total Program Services				
Instructional salaries	\$ 4,629,129	\$ 1,641,290	\$ 448,324	\$ -	\$ 6,718,743	\$ -	\$ -	\$ 6,718,743	\$ 4,681,983
Administrative staff salaries	1,484,402	391,223	69,871	-	1,945,496	342,525	-	2,288,021	1,550,646
Non-instructional salaries	-	-	-	-	-	2,309	-	2,309	-
Fringe benefits and payroll taxes	1,051,895	347,134	92,110	-	1,491,139	59,404	-	1,550,543	1,136,952
Retirement	59,045	19,404	5,263	-	83,712	3,337	-	87,049	78,948
Total Salaries and Related Expenses	<u>7,224,471</u>	<u>2,399,051</u>	<u>615,568</u>	<u>-</u>	<u>10,239,090</u>	<u>407,575</u>	<u>-</u>	<u>10,646,665</u>	<u>7,448,529</u>
Legal services	-	-	-	-	-	15,888	-	15,888	4,088
Accounting and audit services	-	-	-	-	-	36,398	-	36,398	30,335
Other professional and consulting services	164,371	88,731	16,317	-	269,419	750,536	496,337	1,516,292	1,222,658
Building and land rent/lease	837,372	320,018	23,418	-	1,180,808	46,082	-	1,226,890	-
Repairs and maintenance	280,439	106,701	8,384	-	395,524	15,446	-	410,970	14,381
Insurance	49,482	16,310	3,866	-	69,658	2,637	-	72,295	41,443
Utilities	102,199	39,057	2,858	-	144,114	5,624	-	149,738	-
Supplies and materials	305,470	84,092	17,830	-	407,392	-	-	407,392	300,206
Equipment and furnishings	88,592	22,673	673	-	111,938	-	-	111,938	222,677
Staff development	165,281	46,068	124	-	211,473	9,254	-	220,727	97,238
Marketing and recruitment	70,199	15,261	-	-	85,460	-	-	85,460	176,233
Technology	241,918	73,989	19,878	-	335,785	11,406	-	347,191	277,546
Food service	563,112	142,920	279	-	706,311	-	-	706,311	513,116
Student services	123,792	35,076	635	210,045	369,548	-	-	369,548	259,109
Office expenses	155,300	43,349	519	-	199,168	-	-	199,168	95,951
Depreciation and amortization	157,717	57,367	7,732	-	222,816	8,761	-	231,577	130,517
Dues and Memberships	17,199	4,043	-	-	21,242	-	-	21,242	13,630
Bad debt	-	-	-	-	-	-	-	-	5,009
Other expenses	7,653	2,073	-	-	9,726	2,163	4,560	16,449	9,165
Totals	<u>\$ 10,554,567</u>	<u>\$ 3,496,779</u>	<u>\$ 718,081</u>	<u>\$ 210,045</u>	<u>\$ 14,979,472</u>	<u>\$ 1,311,770</u>	<u>\$ 500,897</u>	<u>\$ 16,792,139</u>	<u>\$ 10,861,831</u>

See notes to financial statements

East Harlem Scholars Academy Charter School

Statement of Cash Flows Year Ended June 30, 2017 (with comparative amounts for the year ended June 30, 2016)

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	\$ (806,927)	\$ (24,367)
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation and amortization	231,577	130,517
Bad debt	-	5,009
Deferred rent	304,390	-
Changes in operating assets and liabilities		
Grants and accounts receivable	(1,142,829)	(576,983)
Prepaid expenses	283,546	(273,747)
Accounts payable and accrued expenses	204,831	281,861
Due to East Harlem Tutorial Program	931,299	28,680
Due to East Harlem Center, LLC	133,914	-
Net Cash from Operating Activities	139,801	(429,030)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(834,725)	-
Restricted cash	(25,000)	-
Net Cash from Investing Activities	(859,725)	-
Net Change in Cash and Cash Equivalents	(719,924)	(429,030)
CASH AND CASH EQUIVALENTS		
Beginning of year	1,045,924	1,474,954
End of year	\$ 326,000	\$ 1,045,924

See notes to financial statements

East Harlem Scholars Academy Charter School

Notes to Financial Statements

June 30, 2017

1. Organization and Tax Status

The Corporation

Founded upon the 53-year legacy of East Harlem Tutorial Program (“EHTP”), East Harlem Scholars Academy Charter School is a not-for-profit education corporation (the “Corporation”) originally formed by the Board of Regents of the University of the State of New York (the “Board of Regents”) on December 14, 2010 by the granting of a Provisional Charter (the education corporation-equivalent of a certificate of incorporation) to operate one (1) (and as of January 1, 2013 two (2)) public charter schools. The Board of Regents has since issued two renewals to the Corporation’s charter. The Corporation’s charter expires on December 31, 2020. The mission of the schools is to prepare students with the academic skills, strength of character and social and emotional well-being to excel in high school and college, to lead in their communities, and to realize their best possible selves.

The Schools

East Harlem Scholars Academy Charter School (“Scholars”) - also the name of the first school for which the Corporation received a charter to operate – is situated in East Harlem in the borough of Manhattan, New York City. Scholars opened in the fall of 2011 with kindergarten and first grade and added a grade each year so that in fiscal 2017 it served pre-k through sixth grade. In 2016 Scholars received a full five year term renewal which authorizes the school to add a grade each year until it serves kindergarten through eighth grade. In fiscal 2017 Scholars added one section of Universal Pre-Kindergarten (pre-k).

East Harlem Scholars Academy Charter School II (“Scholars II”) is the second public charter school for which the Corporation received a charter to operate. It opened in the fall of 2013 with kindergarten and first grades and will expand each year until it serves students through fifth grade. In fiscal 2016 Scholars II added two sections of Universal Pre-Kindergarten (pre-k). In fiscal 2017 it served students in pre-k through fourth grade.

Scholars and Scholars II are referred to collectively as the “School.”

The School is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code.

The School’s primary sources of income are from per pupil and other government funding.

East Harlem Scholars Academy Charter School

Notes to Financial Statements

June 30, 2017

2. Summary of Significant Accounting Policies

Basis of Presentation and Use of Estimates

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

The net assets of the School and changes therein are classified as unrestricted, temporarily restricted or permanently restricted based on the existence or absence of donor-imposed restrictions. Unrestricted net assets are those that are not subject to donor-imposed stipulations. Temporarily restricted net assets represent contributions with donor-imposed restrictions that have not yet been satisfied or are time restricted. When a stipulated time restriction ends or a purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restriction. Permanently restricted net assets are those which are established by donor gifts to provide a permanent endowment. There were no temporarily or permanently restricted net assets at June 30, 2017 and 2016.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the School considers all highly liquid investments, with a maturity of three months or less at the time of purchase to be cash equivalents. Restricted cash is a reserve fund of \$75,000 to cover debts in the event of the School's dissolution.

Contributions and Unconditional Promises to Give

Contributions are recognized as revenue when an unconditional promise to give is made and the gift is subject to reasonable valuation. Contributions received and unconditional promises to give are classified as unrestricted, temporarily restricted, or permanently restricted support. If donor restrictions are met within the same reporting period as when the contribution was made, those contributions are recorded as unrestricted support.

Property and Equipment

Property and equipment is recorded at cost. Additions and improvements or betterments in excess of \$5,000 with an estimated useful life of more than one year are capitalized. Depreciation is computed using the straight-line method over the estimated useful lives of the assets ranging from 2 to 5 years. Leasehold improvements are amortized over the shorter of the estimated useful life of the asset or term of the related lease. Property and equipment acquired with certain government contract funds are recorded as expenses when the government retains title to such assets.

East Harlem Scholars Academy Charter School

Notes to Financial Statements

June 30, 2017

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

Property and Equipment (continued)

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 at June 30, 2017 and 2016.

Revenue Recognition

Revenue from the state and local governments under the charter agreement is based on the number of students enrolled, and recorded when services are performed in accordance with the charter agreement.

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

The School follows U.S. GAAP guidance on Accounting for Contributions Received and Contributions Made. Accordingly, contributed assets are recorded at fair value at date of donation. Services are recognized as revenue and expenses at fair value if those services (a) create or enhance nonfinancial assets, or (b) require specialized skills and are provided by individuals with those skills and would typically need to be purchased by the School if they had not been provided by contribution.

A number of volunteers have made a contribution of their time to the School to develop its programs and to serve on the School's board of trustees. The value of such contributed time is not reflected in these financial statements because it does not meet the criteria for recognition.

Prior Year Summarized Financial Information

The financial statements present prior year summarized comparative information in total but not by functional class. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. GAAP. Accordingly, such information should be read in conjunction with the School's financial statements as of and for the year ended June 30, 2016 from which the summarized financial information was derived.

East Harlem Scholars Academy Charter School

Notes to Financial Statements

June 30, 2017

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

Functional Expenses

Expenses that can be directly identified with the program or supporting service to which they relate are charged accordingly. Other expenses by function have been allocated among program and supporting service classifications based upon benefits received. Expenses are classified according to the functional categories for which they are incurred, as follows:

General Education Program Services – represents expenses directly associated with general education.

Special Education Program Services – represents expenses directly associated with special education for certain students requiring additional attention and guidance.

Pre-K – represents expenses directly associated with Pre-K programs.

Supplemental Education Program Services – represents expenses directly associated with after-school and summer school programs.

Management and General – represents expenses related to the overall administration and operation of the School that are not associated with any education services or fundraising.

Fundraising – represents expenses related to efforts to raise additional funds for the School.

Marketing and Recruitment

Marketing and recruitment costs are expensed as incurred for staff and student recruitment.

Accounting For Uncertainty in Income Taxes

The School recognizes the effect of income tax positions only when they are more likely than not to be sustained. Management has determined that the School had no uncertain tax positions that would require financial statement recognition or disclosure. The School is no longer subject to examination by applicable taxing authorities for periods prior to 2014.

Reclassifications

Certain amounts in the 2016 financial statements have been reclassified to conform to the 2017 presentation. Net assets and the change in net assets are unchanged due to these reclassifications

East Harlem Scholars Academy Charter School

Notes to Financial Statements

June 30, 2017

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

Subsequent Events Evaluation by Management

Management has evaluated subsequent events for disclosure and/or recognition in the financial statements through the date that the financial statements were available to be issued, which date is October 23, 2017.

3. Concentration of Credit Risk and Revenue

The School's financial instruments that are potentially exposed to concentration of credit risk consist of cash and cash equivalents. The School places its cash and cash equivalents with quality financial institutions in the United States. At times, cash balances may be in excess of Federal Deposit Insurance Corporation ("FDIC") insurance limits. The School routinely assesses the financial strength of its cash and cash equivalents. The School has not experienced any losses in such accounts and believes its cash balances are not exposed to any significant risk.

The School receives a majority of its revenues from the New York State Education Department through the Charter Schools Institute of the State University of New York (the "Institute"). The Institute provides general operating support to the School based upon the location and the number of students enrolled. Support from per pupil general education and special education and lease assistance provided to the School totaled \$12,128,949 and \$9,450,248 for the years ended June 30, 2017 and 2016. The School is dependent upon this level of funding in order to continue its operations.

4. Grants and Accounts Receivable

At June 30, 2017 and 2016, grants and accounts receivable are deemed to be fully collectible by management. Management has assessed the need for an allowance and has determined that such an allowance is not necessary.

5. Property and Equipment

Property and equipment consist of the following at June 30:

	<u>2017</u>	<u>2016</u>
Computers and other equipment	\$ 609,266	\$ 309,506
Furniture and fixtures	704,218	169,253
Leasehold improvements	<u>64,562</u>	<u>64,562</u>
	1,378,046	543,321
Less: Accumulated depreciation	<u>(637,267)</u>	<u>(405,690)</u>
	<u>\$ 740,779</u>	<u>\$ 137,631</u>

East Harlem Scholars Academy Charter School

Notes to Financial Statements

June 30, 2017

6. Related Party Transactions

The School's bylaws stipulate that at least 51% and no more than 60% of its Trustees may also be members of the board of EHTP thus resulting in common control. Under a cost sharing agreement with EHTP, approved by a supermajority of the board, EHTP provides the School with administrative support. Shared operating costs are allocated to the School based on employee hours spent. The total amount of the cost sharing agreement for the years ended June 30, 2017 and 2016 was \$999,323 and \$713,582.

In addition, EHTP pays certain expenses on behalf of the School which are subsequently reimbursed. The total amount of these reimbursed expenses for the year ended June 30, 2017 was \$1,402,816 and \$1,977,495 for the year ended June 30, 2016. The balance due from the School to EHTP related to both the cost sharing and reimbursable expenses as of June 30, 2017 totaled \$1,492,151 and \$560,852 for the year ended June 30, 2016.

During the year ended June 30, 2017, East Harlem Center, LLC ("EHC"), a wholly owned subsidiary of EHTP, paid for utility costs on behalf of the School. The balance due from the School to EHC at June 30, 2017 totaled \$133,914.

For the year ended June 30, 2017, grants from affiliates amounted to \$1,767,095. At June 30, 2017, grants receivable from EHTP amounted to \$1,159,681.

The accompanying financial statements reflect only the activities and net assets of the School. Management has applied U.S. GAAP standards in assessing the need to consolidate the financial statements of the School with those of EHTP and EHC. Under these standards, consolidation should occur if both an economic interest in the School and control by a majority of common board members exist. Management has determined that EHTP and EHC have no economic interest in the School and consolidation is precluded.

7. Agreement with School Facility

Scholars had an agreement through the school year 2015-2016 with the New York City Department of Education for space at the Jackie Robinson Educational Complex (the "Complex"), a New York City public school located at 1573 Madison Avenue, New York, New York. Beginning September 1, 2016, Scholars occupies a facility located at 2040-2050 Second Avenue, New York, NY (see Note 10). Scholars II has an agreement to be permanently co-located at the Complex. The fair value of the rent has not been included in the accompanying financial statements. The School will be responsible for any overtime-related costs for services provided beyond the regular operating hours. For the years ended June 30, 2017 and 2016, the School did not incur any overtime related costs.

East Harlem Scholars Academy Charter School

Notes to Financial Statements

June 30, 2017

8. Contingencies

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 protect itself from such risks and is self-insured for other risks.

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, because management does not believe that there are any liabilities to be recorded.

9. Employee Benefit Plan

The School maintains a deferred compensation plan for all qualified employees. The School elects to make contributions to the plan on a discretionary basis. The School contributed \$87,049 and \$78,948 to the plan for the years ended June 30, 2017 and 2016.

10. Commitments

During the fiscal year ended June 30, 2015, an agreement to lease the land and buildings located at 2040-2050 Second Avenue, New York, NY, was executed between Scholars and EHC. In connection with this agreement, at June 30, 2016, the School made a contribution to EHC toward the cost of the new building in the amount of \$200,000 to be amortized over the life of the lease. The lease has a term of 30 years commencing on September 1, 2016. Future minimum rental payments to be paid under this lease are as follows:

2018	\$ 1,269,900
2019	1,416,600
2020	1,416,600
2021	1,416,600
2022	1,416,600
Thereafter	<u>36,309,268</u>
	<u>\$ 43,245,568</u>

Rent expense under this lease for the years ended June 30, 2017 and 2016 was \$1,226,890 and \$0.

East Harlem Scholars Academy Charter School

Notes to Financial Statements
June 30, 2017

10. Commitments (continued)

In addition, Scholars entered into an agreement with EHTP to sublease a portion of its space located at 2040-2050 Second Avenue, New York, NY. The lease has a term of 30 years commencing on September 1, 2016. Future minimum rental payments to be received under this lease are as follows:

2018	\$	21,900
2019		24,600
2020		24,600
2021		24,600
2022		24,600
Thereafter		<u>629,268</u>
	\$	<u>749,568</u>

Rental income under this sublease for the years ended June 30, 2017 and 2016 was \$12,500 and \$0.

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East Harlem Scholars Academy Charter School

Supplementary Information

June 30, 2017

East Harlem Scholars Academy Charter School

Schedule of Financial Position by School June 30, 2017

	East Harlem Scholars Academy Charter School	East Harlem Scholars Academy Charter School II	Eliminating Entry	Total
ASSETS				
Cash and cash equivalents	\$ 18,768	\$ 307,232	\$ -	\$ 326,000
Grants and accounts receivable	1,246,803	785,775	-	2,032,578
Prepaid expenses	5,983	4,527	-	10,510
Restricted cash	75,000	-	-	75,000
Property and equipment, net	671,390	69,389	-	740,779
Due from East Harlem Scholars Academy Charter School II	<u>81,474</u>	<u>-</u>	<u>(81,474)</u>	<u>-</u>
	<u>\$ 2,099,418</u>	<u>\$ 1,166,923</u>	<u>\$ (81,474)</u>	<u>\$ 3,184,867</u>
LIABILITIES AND NET ASSETS				
Liabilities				
Accounts payable and accrued expenses	\$ 596,102	\$ 326,354	\$ -	\$ 922,456
Due to East Harlem Tutorial Program	763,045	729,106	-	1,492,151
Due to East Harlem Scholars Academy Charter School	-	81,474	(81,474)	-
Due to East Harlem Center, LLC	133,914	-	-	133,914
Deferred rent	<u>304,390</u>	<u>-</u>	<u>-</u>	<u>304,390</u>
Total Liabilities	1,797,451	1,136,934	(81,474)	2,852,911
Net assets, unrestricted	<u>301,967</u>	<u>29,989</u>	<u>-</u>	<u>331,956</u>
	<u>\$ 2,099,418</u>	<u>\$ 1,166,923</u>	<u>\$ (81,474)</u>	<u>\$ 3,184,867</u>

See independent auditors' report

East Harlem Scholars Academy Charter School

Schedule of Activities by School Year Ended June 30, 2017

	<u>East Harlem Scholars Academy Charter School</u>	<u>East Harlem Scholars Academy Charter School II</u>	<u>Total</u>
REVENUE AND SUPPORT			
Public School District -			
State and local per pupil operating revenue	\$ 7,262,534	\$ 4,343,853	\$ 11,606,387
Lease assistance	522,562	-	522,562
Government grants and contracts	825,685	929,723	1,755,408
Contributions	1,533,713	553,879	2,087,592
Other income	<u>13,263</u>	<u>-</u>	<u>13,263</u>
Total Revenue and Support	<u>10,157,757</u>	<u>5,827,455</u>	<u>15,985,212</u>
EXPENSES			
Program services	9,770,545	5,208,927	14,979,472
Management and general	779,431	532,339	1,311,770
Fundraising	<u>293,341</u>	<u>207,556</u>	<u>500,897</u>
Total Expenses	<u>10,843,317</u>	<u>5,948,822</u>	<u>16,792,139</u>
Change in Net Assets	(685,560)	(121,367)	(806,927)
NET ASSETS (UNRESTRICTED)			
Beginning of year	<u>987,527</u>	<u>151,356</u>	<u>1,138,883</u>
End of year	<u>\$ 301,967</u>	<u>\$ 29,989</u>	<u>\$ 331,956</u>

See independent auditors' report

East Harlem Scholars Academy Charter School

Schedule of Functional Expenses East Harlem Scholars Academy School Year Ended June 30, 2017

	Program Services				Total Program Services	Management and General	Fundraising	Total
	General Education	Special Education	Pre-K	Supplemental Education				
Instructional salaries	\$ 2,801,130	\$ 1,136,265	\$ 98,849	\$ -	\$ 4,036,244	\$ -	\$ -	\$ 4,036,244
Administrative staff salaries	911,080	282,429	4,969	-	1,198,478	201,981	-	1,400,459
Non-instructional salaries	-	-	-	-	-	2,309	-	2,309
Fringe benefits and payroll taxes	618,330	236,307	17,293	-	871,930	34,028	-	905,958
Retirement	34,066	13,019	953	-	48,038	1,875	-	49,913
Total Salaries and Related Expenses	<u>4,364,606</u>	<u>1,668,020</u>	<u>122,064</u>	<u>-</u>	<u>6,154,690</u>	<u>240,193</u>	<u>-</u>	<u>6,394,883</u>
Legal services	-	-	-	-	-	1,287	-	1,287
Accounting and audit services	-	-	-	-	-	21,398	-	21,398
Other professional and consulting services	71,576	46,749	304	-	118,629	433,771	288,781	841,181
Building and land rent/lease	837,372	320,018	23,418	-	1,180,808	46,082	-	1,226,890
Repairs and maintenance	276,695	105,744	7,738	-	390,177	15,227	-	405,404
Insurance	30,390	11,522	814	-	42,726	1,602	-	44,328
Utilities	102,199	39,057	2,858	-	144,114	5,624	-	149,738
Supplies and materials	198,307	63,757	6,292	-	268,356	-	-	268,356
Equipment and furnishings	48,748	15,112	353	-	64,213	-	-	64,213
Staff development	122,292	37,910	-	-	160,202	-	-	160,202
Marketing and recruitment	16,136	5,002	-	-	21,138	-	-	21,138
Technology	118,089	43,998	2,864	-	164,951	5,635	-	170,586
Food service	299,945	92,981	-	-	392,926	-	-	392,926
Student services	96,355	29,870	200	184,313	310,738	-	-	310,738
Office expenses	115,435	35,784	389	-	151,608	-	-	151,608
Depreciation and amortization	134,745	51,495	3,768	-	190,008	7,416	-	197,424
Dues and Memberships	6,483	2,010	-	-	8,493	-	-	8,493
Bad debt	-	-	-	-	-	-	-	-
Other expenses	5,167	1,601	-	-	6,768	1,196	4,560	12,524
Totals	<u>\$ 6,844,540</u>	<u>\$ 2,570,630</u>	<u>\$ 171,062</u>	<u>\$ 184,313</u>	<u>\$ 9,770,545</u>	<u>\$ 779,431</u>	<u>\$ 293,341</u>	<u>\$ 10,843,317</u>

See independent auditors' report

East Harlem Scholars Academy Charter School

Schedule of Functional Expenses East Harlem Scholars Academy School II Year Ended June 30, 2017

	Program Services				Total Program Services	Management and General	Fundraising	Total
	General Education	Special Education	Pre-K	Supplemental Education				
Instructional salaries	\$ 1,827,999	\$ 505,025	\$ 349,475	\$ -	\$ 2,682,499	\$ -	\$ -	\$ 2,682,499
Administrative staff salaries	573,322	108,794	64,902	-	747,018	140,544	-	887,562
Fringe benefits and payroll taxes	433,565	110,827	74,817	-	619,209	25,376	-	644,585
Retirement	24,979	6,385	4,310	-	35,674	1,462	-	37,136
Total Salaries and Related Expenses	<u>2,859,865</u>	<u>731,031</u>	<u>493,504</u>	-	4,084,400	167,382	-	4,251,782
Legal services	-	-	-	-	-	14,601	-	14,601
Accounting and audit services	-	-	-	-	-	15,000	-	15,000
Other professional and consulting services	92,795	41,982	16,013	-	150,790	316,765	207,556	675,111
Repairs and maintenance	3,744	957	646	-	5,347	219	-	5,566
Insurance	19,092	4,788	3,052	-	26,932	1,035	-	27,967
Supplies and materials	107,163	20,335	11,538	-	139,036	-	-	139,036
Equipment and furnishings	39,844	7,561	320	-	47,725	-	-	47,725
Staff development	42,989	8,158	124	-	51,271	9,254	-	60,525
Marketing and recruitment	54,063	10,259	-	-	64,322	-	-	64,322
Technology	123,829	29,991	17,014	-	170,834	5,771	-	176,605
Food service	263,167	49,939	279	-	313,385	-	-	313,385
Student services	27,437	5,206	435	25,732	58,810	-	-	58,810
Office expenses	39,865	7,565	130	-	47,560	-	-	47,560
Depreciation and amortization	22,972	5,872	3,964	-	32,808	1,345	-	34,153
Dues and Memberships	10,716	2,033	-	-	12,749	-	-	12,749
Other expenses	2,486	472	-	-	2,958	967	-	3,925
Totals	<u>\$ 3,710,027</u>	<u>\$ 926,149</u>	<u>\$ 547,019</u>	<u>\$ 25,732</u>	<u>\$ 5,208,927</u>	<u>\$ 532,339</u>	<u>\$ 207,556</u>	<u>\$ 5,948,822</u>

See independent auditors' report

East Harlem Scholars Academy Charter School

Schedule of Cash Flows by School Year Ended June 30, 2017

	East Harlem Scholars Academy Charter School	East Harlem Scholars Academy Charter School II	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Changes in net assets	\$ (685,560)	\$ (121,367)	\$ (806,927)
Adjustments to reconcile change in net assets to net cash from operating activities			
Depreciation and amortization	197,424	34,153	231,577
Bad debt	-	-	-
Deferred rent	304,390	-	304,390
Changes in operating assets and liabilities			
Grants and accounts receivable	(540,041)	(602,788)	(1,142,829)
Prepaid expenses	285,593	(2,047)	283,546
Accounts payable and accrued expenses	100,817	104,014	204,831
Due (to)/from East Harlem Scholars Academy Charter School	(23,977)	81,474	57,497
Due to East Harlem Tutorial Program	440,180	491,119	931,299
Due to East Harlem Center, LLC	133,914	-	133,914
Due (to)/from East Harlem Scholars Academy Charter School II	(81,474)	23,977	(57,497)
Net Cash from Operating Activities	131,266	8,535	139,801
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property and equipment	(769,051)	(65,674)	(834,725)
Restricted cash	(25,000)	-	(25,000)
Net Cash from Investing Activities	(794,051)	(65,674)	(859,725)
Net Change in Cash and Cash Equivalents	(662,785)	(57,139)	(719,924)
CASH AND CASH EQUIVALENTS			
Beginning of period	681,553	364,371	1,045,924
End of period	\$ 18,768	\$ 307,232	\$ 326,000

See independent auditors' report

East Harlem Scholars Academy Charter School

Uniform Guidance Schedules and Reports

June 30, 2017

East Harlem Scholars Academy Charter School

Schedule of Expenditures of Federal Awards Year Ended June 30, 2017

<u>Federal Grantor/Pass-through Grantor/Program or Cluster</u>		<u>Pass-Through Entity Identifying Number</u>	<u>CFDA Number</u>	<u>Passed Through to Subrecipients</u>	<u>Total Federal Expenditures</u>
<u>U.S. Department of Education</u>					
Pass-through New York State Education Department					
Title I Grants to Local Educational Agencies (LEAs)	EHS	0021164840	84.010	\$ -	\$ 14,889
Title I Grants to Local Educational Agencies (LEAs)	EHS	0021174840	84.010	-	107,766
Title I Grants to Local Educational Agencies (LEAs)	EHS 2	0021164980	84.010	-	9,405
Title I Grants to Local Educational Agencies (LEAs)	EHS 2	0021174980	84.010	-	91,485
Supporting Effective Instruction State Grants (formerly Improving Teacher Quality State Grants (Title II))	EHS	0147164840	84.367	-	941
Supporting Effective Instruction State Grants (formerly Improving Teacher Quality State Grants (Title II))	EHS	0147174840	84.367	-	5,542
Supporting Effective Instruction State Grants (formerly Improving Teacher Quality State Grants (Title II))	EHS 2	0147164980	84.367	-	944
Supporting Effective Instruction State Grants (formerly Improving Teacher Quality State Grants (Title II))	EHS 2	0147174980	84.367	-	5,859
Total Pass-through New York State Education Department				-	236,831
Total US Department of Education				-	236,831
<u>U.S. Department of Agriculture</u>					
Pass-through New York State Education Department					
Child Nutrition Cluster					
School Breakfast Program (SBP) (Cluster)		310400860995	10.553	-	168,404
National School Lunch Program (NSLP) (Lunch) (Cluster)		310400860995	10.555	-	361,869
National School Lunch Program (NSLP) (Snack) (Cluster)		310400860995	10.555	-	82,994
Total Child Nutrition Cluster				-	613,267
Total Pass-through New York State Education Department				-	613,267
Total US Department of Agriculture				-	613,267
Total Expenditures of Federal Awards				\$ -	\$ 850,098

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

East Harlem Scholars Academy Charter School
Notes to Schedule of Expenditures of Federal Awards
Year Ended June 30, 2017

1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") includes the federal award activity of East Harlem Scholars Academy Charter School (the "School") under programs of the federal government for the year ended June 30, 2017. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the School, it is not intended to and does not present the financial position, changes in net assets or cash flows of the School.

2. Summary of Significant Accounting Policies

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

3. Nonmonetary Assistance

Nonmonetary assistance is reported in the Schedule based on the amount disbursed or received. The School received no nonmonetary assistance for the year ended June 30, 2017.

4. Indirect Cost Rate

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

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

Independent Auditors' Report

**Board of Trustees
East Harlem Scholars Academy Charter School**

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 East Harlem Scholars Academy Charter School (the "School"), which comprise the statement of financial position as of June 30, 2017 and the related statement 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 23, 2017.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

PKF O'Connor Davies, LLP

October 23, 2017

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

Independent Auditors' Report

**Board of Trustees
East Harlem Scholars Academy Charter School**

Report on Compliance for Each Major Federal Program

We have audited East Harlem Scholars Academy Charter School's (the "School") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the School's major federal programs for the year ended June 30, 2017. The School's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditors' Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, East Harlem Scholars Academy Charter School complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

Report on Internal Control over Compliance

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

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

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

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

PKF O'Connor Davies, LLP

October 23, 2017

East Harlem Scholars Academy Charter School

Schedule of Findings and Questioned Costs
Year Ended June 30, 2017

Section I - Summary of Auditors' Results

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP: Unmodified
Internal control over financial reporting:
Material weakness(es) identified? yes no
Significant deficiency(ies) identified? yes none reported
Noncompliance material to financial statements noted? yes no

Federal Awards

Internal control over major federal programs:
Material weakness(es) identified? yes no
Significant deficiency(ies) identified? yes none reported
Type of auditors' report issued on compliance for major federal programs: Unmodified
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? yes no

Identification of major federal programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
10.553	School Breakfast Program (Child Nutrition Cluster)
10.555	National School Lunch Program (Child Nutrition Cluster)

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000
Auditee qualified as low-risk auditee? yes no

Section II – Financial Statement Findings

During our audit, we noted no material findings for the year ended June 30, 2017.

Section III – Federal Award Findings and Questioned Costs

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

Section IV - Prior Years Findings

There were no prior year financial statement findings or federal award findings and questioned costs.