

**East Harlem Scholars Academy Charter School**

Financial Statements and  
OMB Circular A-133 Financial Report  
Together With Independent Auditors' Report

June 30, 2015

# East Harlem Scholars Academy Charter School

## Financial Statements and OMB Circular A-133 Financial Report Together With Independent Auditors' Report

June 30, 2015

<b>TABLE OF CONTENTS</b>	<b>Page</b>
Independent Auditors' Report	
<b>FINANCIAL STATEMENTS</b>	
Statement of Financial Position	3
Statement of Activities	4
Statement of Functional Expenses	5
Statement of Cash Flows	6
Notes to Financial Statements	7-13
Supplementary Information	14-15
<b>OMB CIRCULAR A-133 SCHEDULES AND REPORTS</b>	
Schedule of Expenditures of Federal Awards	16
Notes to Schedule of Expenditures of Federal Awards	17
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	
Report on Compliance For Each Major Federal Program and Report on Internal Control Over Compliance Required by OMB Circular A-133	
Schedule of Findings and Questioned Costs	22

## **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 statements of financial position as of June 30, 2015 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.

O'CONNOR DAVIES, LLP  
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***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, 2015 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, 2014 financial statements, and we expressed an unmodified opinion on those audited financial statements in our report dated October 30, 2014. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2014 is consistent, in all material respects, with the audited financial statements from which it has been derived.

***Other Matters***

***Supplemental Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedules of financial position by school and activities by school for the year ended June 30, 2015 on pages 13 and 14 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, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, 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 29, 2015 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.

*O'Connor Davies, LLP*

October 29, 2015

## East Harlem Scholars Academy Charter School

Statement of Financial Position  
June 30, 2015  
(with comparative amounts at June 30, 2014)

	<u>2015</u>	<u>2014</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 1,474,954	\$ 1,038,888
Grants and accounts receivable	317,775	250,658
Prepaid expenses	20,309	33,419
Restricted cash	50,000	50,000
Property and equipment, net	<u>268,148</u>	<u>298,208</u>
	<u>\$ 2,131,186</u>	<u>\$ 1,671,173</u>
<b>LIABILITIES AND NET ASSETS</b>		
Liabilities		
Accounts payable and accrued expenses	\$ 435,764	\$ 401,705
Due to East Harlem Tutorial Program	<u>532,172</u>	<u>491,134</u>
Total Liabilities	967,936	892,839
Net assets, unrestricted	<u>1,163,250</u>	<u>778,334</u>
	<u>\$ 2,131,186</u>	<u>\$ 1,671,173</u>

See notes to financial statements

**East Harlem Scholars Academy Charter School**

Statement of Activities  
Year Ended June 30, 2015  
(with comparative totals for the year ended June 30, 2014)

	<u>2015</u>	<u>2014</u>
<b>REVENUE AND SUPPORT</b>		
Public School District -		
State and local per pupil operating revenue	\$ 7,152,055	\$ 5,304,726
Government grants and contracts	756,240	892,642
Contributions from foundations	280,000	380,000
Other income	<u>7,056</u>	<u>3,921</u>
Total Revenue and Support	<u>8,195,351</u>	<u>6,581,289</u>
 <b>EXPENSES</b>		
Program services	7,002,948	5,605,867
Management and general	561,577	427,525
Fundraising	<u>245,910</u>	<u>159,792</u>
Total Expenses	<u>7,810,435</u>	<u>6,193,184</u>
Change in Net Assets	384,916	388,105
 <b>NET ASSETS (UNRESTRICTED)</b>		
Beginning of year	<u>778,334</u>	<u>390,229</u>
 End of year	<u>\$ 1,163,250</u>	<u>\$ 778,334</u>

See notes to financial statements

## East Harlem Scholars Academy Charter School

### Statement of Functional Expenses Year Ended June 30, 2015 (with summarized totals for the year ended June 30, 2014)

	2015						2014	
	Program Services							
	General Education	Special Education	Supplemental Education	Total Program Services	Management and General	Fundraising	Total	Total
Instructional salaries	\$ 2,135,074	\$ 1,312,635	\$ -	\$ 3,447,709	\$ -	\$ -	\$ 3,447,709	\$ 2,547,018
Administrative staff salaries	630,730	194,821	-	825,551	192,400	52,731	1,070,682	833,717
Fringe benefits and payroll taxes	480,223	261,061	-	741,284	33,396	9,163	783,843	562,682
Retirement	32,074	17,945	-	50,019	1,110	1,734	52,863	34,106
Total Salaries and Related Expenses	3,278,101	1,786,462	-	5,064,563	226,906	63,628	5,355,097	3,977,523
Legal services	1,069	613	-	1,682	75	20	1,777	1,032
Accounting and audit services	-	-	-	-	23,812	-	23,812	43,000
Other professional and consulting services	370,325	119,850	-	490,175	230,441	175,002	895,618	839,264
Repairs and maintenance	2,378	1,412	-	3,790	167	44	4,001	4,049
Insurance	39,193	20,650	-	59,843	2,716	755	63,314	30,432
Supplies and materials	184,373	82,960	1,272	268,605	-	-	268,605	324,207
Equipment and furnishings	19,841	10,242	-	30,083	1,372	385	31,840	20,080
Staff development	47,947	22,910	-	70,857	6,737	560	78,154	71,137
Marketing and recruitment	95,151	45,933	-	141,084	4,073	1,090	146,247	51,002
Technology	92,852	50,480	-	143,332	6,457	1,772	151,561	100,678
Food service	265,573	90,845	-	356,418	-	-	356,418	308,601
Student services	13,058	4,675	130,914	148,647	-	-	148,647	170,324
Office expenses	33,759	19,746	-	53,505	51,246	628	105,379	101,857
Depreciation	100,573	57,759	-	158,332	7,041	1,883	167,256	128,806
Bad debt	-	-	-	-	-	-	-	5,527
Other expenses	7,628	4,404	-	12,032	534	143	12,709	15,665
 Totals	<u>\$ 4,551,821</u>	<u>\$ 2,318,941</u>	<u>\$ 132,186</u>	<u>\$ 7,002,948</u>	<u>\$ 561,577</u>	<u>\$ 245,910</u>	<u>\$ 7,810,435</u>	<u>\$ 6,193,184</u>

See notes to financial statements

## East Harlem Scholars Academy Charter School

### Statement of Cash Flows

June 30, 2015

(with comparative totals for the year ended June 30, 2015)

	<u>2015</u>	<u>2014</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Changes in net assets	\$ 384,916	\$ 388,105
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation	167,256	128,806
Bad debt	-	5,527
Changes in operating assets and liabilities		
Grants and accounts receivable	(67,117)	197,129
Prepaid expenses	13,110	12,244
Accounts payable and accrued expenses	34,059	210,169
Due to East Harlem Tutorial Program	<u>41,038</u>	<u>127,527</u>
Net Cash from Operating Activities	573,262	1,069,507
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of property and equipment	<u>(137,196)</u>	<u>(189,388)</u>
Net Change in Cash and Cash Equivalents	436,066	880,119
<b>CASH AND CASH EQUIVALENTS</b>		
Beginning of period	<u>1,038,888</u>	<u>158,769</u>
End of period	<u>\$ 1,474,954</u>	<u>\$ 1,038,888</u>

See notes to financial statements

## **East Harlem Scholars Academy Charter School**

Notes to Financial Statements

June 30, 2015

### **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) valid for a period of five (5) years and renewable upon expiration to operate one (1) (and as of January 1, 2013 two (2)) public charter schools. 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 it now serves kindergarten through 5<sup>th</sup> grade.

East Harlem Scholars Academy Charter School II (“Scholars II”) is the second public charter school for which the Corporation received a charter to operate, and opened in the fall of 2013 with kindergarten and first grade and will add a grade each year until it serves kindergarten through 5<sup>th</sup> 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.

### **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.

## East Harlem Scholars Academy Charter School

Notes to Financial Statements  
June 30, 2015

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

#### ***Basis of Presentation and Use of Estimates (continued)***

The net assets of the School and changes therein are classified as unrestricted, temporarily restricted and 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, 2015 and 2014.

#### ***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 \$50,000 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 \$1,000 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.

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, 2015 and 2014.

## East Harlem Scholars Academy Charter School

Notes to Financial Statements  
June 30, 2015

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

#### ***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, (b) would typically need to be purchased by the School if they had not been provided by contribution or (c) require specialized skills and are provided by individuals with those skills.

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 net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. AAP. Accordingly, such information should be read in conjunction with the School's financial statements for the year ended June 30, 2014 from which the summarized financial information was derived.

#### ***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.

## East Harlem Scholars Academy Charter School

Notes to Financial Statements

June 30, 2015

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

#### ***Functional Expenses (continued)***

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 subject to examination by applicable taxing authorities since inception in 2012.

#### ***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 29, 2015 and has accounted for or disclosed such events, as appropriate, in these financial statements.

### 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.

## East Harlem Scholars Academy Charter School

Notes to Financial Statements  
June 30, 2015

### 3. Concentration of Credit Risk and Revenue *(continued)*

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. Per pupil General Education and Special Education support provided to the School totaled \$7,152,055 and \$5,304,726 for the years ended June 30, 2015 and 2014. The School is dependent upon this level of funding in order to continue its operations.

### 4. Grants and Accounts Receivable

At June 30, 2015 and 2014, grants and accounts receivable are deemed to be fully collectible by management.

### 5. Property and Equipment

Property and equipment consist of the following at June 30:

	<u>2015</u>	<u>2014</u>
Computers and other equipment	\$ 352,609	\$ 297,898
Furniture and fixtures	169,253	125,679
Leasehold improvements	<u>115,611</u>	<u>104,982</u>
	637,473	528,559
Less: Accumulated depreciation	<u>(369,325)</u>	<u>(230,351)</u>
	<u>\$ 268,148</u>	<u>\$ 298,208</u>

During the fiscal year ended June 30, 2015, the School removed from its books and record fully depreciated equipment amounting to \$28,282.

### 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 shared operating costs allocated from EHTP amounted to \$671,831 and \$680,349 for 2015 and 2014. Amounts due to EHTP are paid in the normal course of operations.

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. 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 has no economic interest in the School and consolidation is precluded.

## East Harlem Scholars Academy Charter School

Notes to Financial Statements  
June 30, 2015

### 7. Agreement with School Facility

Scholars has 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. 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, 2015 and 2014, the School did not incur any overtime permit fees.

### 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 had contributed \$52,864 and \$34,106 to the plan for the years ended June 30, 2015 and 2014.

### 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 the East Harlem Center, LLC, a wholly owned subsidiary of EHTP. 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:

2016	\$	-
2017		722,500
2018		1,269,900
2019		1,416,600
2020		1,416,600
Thereafter		<u>39,142,468</u>
		<u>\$ 43,968,068</u>

## East Harlem Scholars Academy Charter School

Notes to Financial Statements  
June 30, 2015

### 10. Commitments

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 under this lease are as follows:

2016	\$	-
2017		12,500
2018		21,900
2019		24,600
2020		24,600
Thereafter		<u>678,468</u>
	\$	<u>762,068</u>

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**East Harlem Scholars Academy Charter School**

Supplementary Information

June 30, 2015

## East Harlem Scholars Academy Charter School

### Schedule of Financial Position by School June 30, 2015

	East Harlem Scholars Academy	East Harlem Scholars Academy II	Eliminating Entry	Total
<b>ASSETS</b>				
Cash and cash equivalents	\$ 1,255,268	\$ 219,686	\$ -	\$ 1,474,954
Grants and accounts receivable	156,384	161,391	-	317,775
Prepaid expenses	9,752	10,557	-	20,309
Restricted cash	50,000	-	-	50,000
Property and equipment, net	200,219	67,929	-	268,148
Due from East Harlem Scholars Academy	-	35,453	(35,453)	-
	<u>\$ 1,671,623</u>	<u>\$ 495,016</u>	<u>\$ (35,453)</u>	<u>\$ 2,131,186</u>
 <b>LIABILITIES AND NET ASSETS</b>				
Liabilities				
Accounts payable and accrued expenses	\$ 289,555	\$ 146,209	\$ -	\$ 435,764
Due to East Harlem Tutorial Program	379,389	152,783	-	532,172
Due to East Harlem Scholars Academy II	35,453	-	(35,453)	-
Total Liabilities	704,397	298,992	(35,453)	967,936
Net assets, unrestricted	967,226	196,024	-	1,163,250
	<u>\$ 1,671,623</u>	<u>\$ 495,016</u>	<u>\$ (35,453)</u>	<u>\$ 2,131,186</u>

See independent auditors' report

## East Harlem Scholars Academy Charter School

### Schedule of Activities by School Year Ended June 30, 2015

	East Harlem Scholars Academy	East Harlem Scholars Academy II	Total
<b>REVENUE AND SUPPORT</b>			
Public School District -			
State and local per pupil operating revenue	\$ 4,673,528	\$ 2,478,527	\$ 7,152,055
Government grants and contracts	391,198	365,042	756,240
Contributions from foundations	130,000	150,000	280,000
Other income	7,056	-	7,056
Total Revenue and Support	5,201,782	2,993,569	8,195,351
<b>EXPENSES</b>			
Program services	4,500,294	2,502,654	7,002,948
Management and general	335,911	225,666	561,577
Fundraising	141,426	104,484	245,910
Total Expenses	4,977,631	2,832,804	7,810,435
Change in Net Assets	224,151	160,765	384,916
<b>NET ASSETS (UNRESTRICTED)</b>			
Beginning of year	743,075	35,259	778,334
End of year	\$ 967,226	\$ 196,024	\$ 1,163,250

See independent auditors' report

**East Harlem Scholars Academy Charter School**

OMB Circular A-133 Schedules and Reports

Year Ended June 30, 2015

## East Harlem Scholars Academy Charter School

### Schedule of Expenditures of Federal Awards Year Ended June 30, 2015

<u>Federal Grantor/Pass-through Grantor/Program or Cluster Title</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
<u>Department of Education</u>			
Pass-Through Programs From:			
New York State Education Department			
Title I Grants to Local Educational Agencies	0021144980	84.010	\$ 6,771
Title I Grants to Local Educational Agencies	0021144840	84.010	13,071
Title I Grants to Local Educational Agencies	0021154980	84.010	51,232
Title I Grants to Local Educational Agencies	0021154840	84.010	68,273
Charter Schools	0089145055	84.282	30,625
Charter Schools	0089155055	84.282	82,163
Improving Teacher Quality State Grants	0147144980	84.367	908
Improving Teacher Quality State Grants	0147144840	84.367	917
Improving Teacher Quality State Grants	0147154980	84.367	4,857
Improving Teacher Quality State Grants	0147154840	84.367	4,848
<i>Total Department of Education</i>			<u>263,665</u>
 <u>Department of Agriculture</u>			
Pass-Through Programs From:			
New York State Education Department			
Child Nutrition Cluster			
School Breakfast Program	310400860995	10.553	94,520
National School Lunch Program	310400860995	10.555	219,602
Total Child Nutrition Cluster			<u>314,122</u>
<i>Total Department of Agriculture</i>			<u>314,122</u>
<i>Total Expenditures of Federal Awards</i>			<u>\$ 577,787</u>

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, 2015

### **1. Basis of Presentation**

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of East Harlem Scholars Academy Charter School (the "School") under programs of the federal government for the year ended June 30, 2015. The information in this Schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operations of East Harlem Scholars Academy Charter School, it is not intended to and does not represent the financial position, changes in net assets or cash flows of East Harlem Scholars Academy Charter 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 OMB Circular A-122, *Cost Principles for Non-Profit Organizations*, 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**

For the year ended June 30, 2015, the School received no nonmonetary assistance.

### **4. Subrecipients**

For the year ended June 30, 2015, the School provided no funds to subrecipients.

**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, 2015, 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 20, 2015.

**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.

*O'Connor Davies, LLP*

October 29, 2015

**Report on Compliance For Each Major Federal Program and Report  
on Internal Control Over Compliance Required by  
OMB Circular A-133**

**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, 2015. 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 the requirements of laws, regulations, contracts, and grants 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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, 2015.

## **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 OMB Circular A-133, 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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

*O'Connor Davies, LLP*

October 29, 2015

**East Harlem Scholars Academy Charter School**

Schedule of Findings and Questioned Costs  
Year Ended June 30, 2015

**Section I - Summary of Auditors' Results**

Financial Statements

Type of auditors' report issued: Unmodified  
Internal control over financial reporting:  
Material weakness(es) identified? \_\_\_\_\_yes  X  no  
Significant deficiency(ies) identified? \_\_\_\_\_yes  X  none reported  
Noncompliance material to financial statements noted? \_\_\_\_\_yes  X  no

Federal Awards

Internal control over major programs:  
Material weakness(es) identified? \_\_\_\_\_yes  X  no  
Significant deficiency(ies) identified? \_\_\_\_\_yes  X  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 Section 510(a) of OMB Circular A-133? \_\_\_\_\_yes  X  no

Identification of major programs:

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

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee? \_\_\_\_\_yes  X  no

**Section II - Financial Statement Findings**

During our audit, we noted no material findings for the year ended June 30, 2015.

**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 cost.

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**Management Response to Internal Control Policies FY15**

**Corporate Credit card**

We will ensure all credit card purchases are properly reviewed and approved by management.

**East Harlem Scholars Academy  
Charter School**

Independent Auditors' Report on Communication of  
Internal Control Matters Identified in the Audit

June 30, 2015

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

Auditors' Communication on Internal Control

In planning and performing our audit of the financial statements of East Harlem Scholars Academy Charter School as of and for the year ended June 30, 2015, in accordance with auditing standards generally accepted in the United States of America, we considered East Harlem Scholars Academy Charter School's internal control over financial reporting ("internal control") as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of East Harlem Scholars Academy Charter School's internal control. Accordingly, we do not express an opinion on the effectiveness of East Harlem Scholars Academy Charter School's internal control.

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

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

We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above. However, appended to this letter, is matter involving internal control that we identified during our audit that is an observation and recommendation for strengthening internal control and/or operating efficiency.

This communication is intended solely for the information and use of the Board of Trustees, Management and others within East Harlem Scholars Academy Charter School and is not intended to be and should not be used by anyone other than these specified parties.

*O'Connor Davies, LLP*

October 20, 2015

O'CONNOR DAVIES, LLP

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## East Harlem Scholars Academy Charter School

### Corporate Credit Card

During our review of the School's corporate credit cards, we noted instances where credit card charges were not being reviewed and approved by management. To increase controls, we recommend that all charges are reviewed and approved to verify that items purchased are allowable.

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