

**East Harlem Scholars Academy
Charter School**

Financial Statements

June 30, 2012

East Harlem Scholars Academy Charter School

Financial Statements
June 30, 2012

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INDEPENDENT AUDITORS' REPORT**To the Board of Trustees
East Harlem Scholars Academy Charter School**

We have audited the accompanying statement of financial position of East Harlem Scholars Academy Charter School (the "School") as of June 30, 2012 and the related statements of activities, functional expenses and cash flows for the period from December 14, 2010 (Inception) to June 30, 2012. These financial statements are the responsibility of the School's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, 2012 and the changes in its net assets and its cash flows from December 14, 2010 (Inception) to June 30, 2012 in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 18, 2012 on our consideration of East Harlem Scholars Academy Charter School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

O'Connor Davies, LLP

New York, New York
October 18, 2012

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East Harlem Scholars Academy Charter School

Statement of Financial Position
June 30, 2012

ASSETS

Cash and cash equivalents	\$ 190,056
Grants receivable	361,761
Prepaid expenses and other assets	65,640
Property and equipment, net	<u>98,399</u>
	<u>\$ 715,856</u>

LIABILITIES AND NET ASSETS

Liabilities	
Accounts payable and accrued expenses	\$ 204,891
Due to EHTP	182,301
Deferred revenue	<u>1,762</u>
Total Liabilities	388,954
Net Assets, unrestricted	<u>326,902</u>
	<u>\$ 715,856</u>

See notes to financial statements

East Harlem Scholars Academy Charter School

Statement of Activities
For the period from December 14, 2010 (Inception)
to June 30, 2012

REVENUE AND SUPPORT

State and local per pupil operating revenue	\$ 1,641,985
Government grants and contracts	612,948
Contributions from foundations	352,100
Fundraising event	<u>125,000</u>
Total Revenue and Support	<u>2,732,033</u>

EXPENSES

Program services	2,040,873
Management and general	257,954
Fundraising	<u>106,304</u>
Total Expenses	<u>2,405,131</u>
Change in Net Assets	326,902

NET ASSETS

Beginning of period	<u>-</u>
End of period	<u>\$ 326,902</u>

See notes to financial statements

East Harlem Scholars Academy Charter School

Statement of Functional Expenses
For the period from December 14, 2010 (Inception)
to June 30, 2012

	Program Services				Management and General	Fundraising	Total
	General Education	Special Education	Supplemental Education	Total Program Services			
Salaries	\$ 810,342	\$ 299,728	\$ 752	\$ 1,110,822	\$ 154,268	\$ 7,643	\$ 1,272,733
Payroll taxes and benefits	132,139	49,552	60	181,751	22,711	2,065	206,527
Legal services	12,730	4,774	-	17,504	2,188	199	19,891
Accounting and audit services	-	-	-	-	22,350	-	22,350
Other professional and consulting services	200,727	93,743	-	294,470	17,686	95,153	407,309
Repairs and maintenance	1,571	589	-	2,160	270	25	2,455
Insurance	9,396	3,523	-	12,919	1,615	147	14,681
Supplies and materials	122,251	30,278	-	152,529	-	-	152,529
Equipment and furnishings	8,558	3,209	-	11,767	1,471	134	13,372
Staff development	10,771	3,340	-	14,111	3,120	82	17,313
Marketing and recruitment	29,215	7,622	-	36,837	521	47	37,405
Technology	25,112	9,417	-	34,529	4,316	393	39,238
Food service	81,098	20,086	-	101,184	-	-	101,184
Office expenses	-	-	-	-	22,306	-	22,306
Student services	15,063	3,731	14,816	33,610	-	-	33,610
Depreciation	17,389	6,521	-	23,910	2,989	270	27,169
Other expenses	9,287	3,483	-	12,770	2,143	146	15,059
Totals	\$ 1,485,649	\$ 539,596	\$ 15,628	\$ 2,040,873	\$ 257,954	\$ 106,304	\$ 2,405,131

See notes to financial statements

East Harlem Scholars Academy

Statement of Cash Flows
For the period from December 14, 2010 (Inception)
to June 30, 2012

CASH FLOWS FROM OPERATING ACTIVITIES

Changes in net assets	\$ 326,902
Adjustments to reconcile change in net assets to net cash from operating activities	
Depreciation	27,169
Changes in operating assets and liabilities	
Accounts receivable	(361,761)
Prepaid expenses	(65,640)
Accounts payable and accrued expenses	204,891
Due to EHTP	182,301
Deferred revenue	<u>1,762</u>
Net Cash from Operating Activities	315,624

CASH FLOWS FROM INVESTING ACTIVITIES

Purchase of property and equipment	<u>(125,568)</u>
Net Change in Cash and Cash Equivalents	190,056

CASH AND CASH EQUIVALENTS

Beginning of period	<u>-</u>
End of period	<u>\$ 190,056</u>

See notes to financial statements

East Harlem Scholars Academy Charter School

Notes to Financial Statements
June 30, 2012

1. Organization and Tax Status

Founded upon the 53-year legacy of East Harlem Tutorial Program (EHTP), East Harlem Scholars Academy (the "School") is a public charter school that prepares 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 School operates in the borough of the Manhattan, New York City. On December 14, 2010, the Board of Regents of the University of the State of New York granted the School a provisional charter valid for a term of five years and renewable upon expiration. The school opened in the fall of 2011 with kindergarten and first grade.

The fiscal year ended June 30, 2012 is the first full year of operation for 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 preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingencies, if any, at the date of the financial statements, and the reported amounts of support and revenue and expenses during the period then ended. Actual results could differ from those estimates.

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 permanently restricted net assets at June 30, 2012.

East Harlem Scholars Academy Charter School

Notes to Financial Statements
June 30, 2012

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 Financial Accounting Standards Board (FASB) guidance on Accounting for Contributions Received and Contributions Made. Accordingly, contributed services are recognized as revenue and assets or 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.

Contributions and Unconditional Promises to Give

Contributions received and unconditional promises to give are measured at their fair values and 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.

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.

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. Included in Cash and Cash equivalents is a reserve fund of \$25,000 to cover debts in the event of the School's dissolution.

East Harlem Scholars Academy Charter School

Notes to Financial Statements

June 30, 2012

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

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. 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 for the period from December 14, 2010 (inception) through June 30, 2012.

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.

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 not earned by their per pupil revenue and grants from federal, state and local government.

Marketing and Recruitment

Marketing and recruitment costs are expensed as incurred for staff and student recruitment. Total marketing and recruitment costs for the period from December 14, 2010 (inception) to June 30, 2012 were \$37,405.

East Harlem Scholars Academy Charter School

Notes to Financial Statements
June 30, 2012

3. 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 18, 2012 and has accounted for or disclosed such events, as appropriate, in these financial statements.

4. Concentration of Credit Risk and Revenue

The School maintains its cash and cash equivalents in bank deposit accounts which, at times may exceed federally insured limits. The FDIC has temporarily increased the limit to \$250,000 through December 31, 2012. The School has not experienced any losses in these accounts.

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 Charter Schools 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 \$1,641,985 for the period from December 14, 2010 (Inception) to June 30, 2012. The School is dependent upon this level of funding in order to continue its operations.

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 on others.

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.

5. Grants Receivable

Grants and accounts receivable are deemed to be fully collectible by management and consist of the following at June 30, 2012:

Federal	\$ 271,661
State	<u>90,100</u>
	<u>\$ 361,761</u>

East Harlem Scholars Academy Charter School

Notes to Financial Statements

June 30, 2012

5. Property and Equipment, Net

Property and equipment consist of the following at June 30, 2012:

Computers and other equipment	\$ 77,531
Furniture and fixtures	41,932
Leasehold improvements	<u>6,105</u>
	125,568
Less: Accumulated depreciation	<u>(27,169)</u>
	<u>\$ 98,399</u>

6. Related Party Transactions

The School was granted a charter by The University of the State of New York and as stipulated in its bylaws, 51% of the School's Board of Directors is required to be comprised of East Harlem Tutorial Program ("EHTP") board members thus resulting in common control. The School shares personnel, administrative, and other support under a cost sharing agreement with EHTP. Shared operating costs are allocated to the School based on employee hours spent. As of June 30, 2012 the balance due to EHTP amounted to \$182,301; this amount will be paid in the normal course of operations.

The accompanying financial statements reflect only the activities and net assets of the School. Management has applied Financial Accounting Standards Board (FASB) accounting 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.

7. Agreement with School Facility

The School has a two year agreement, for the school years 2011-2012 and 2012-2013, with the New York City Department of Education for space at the Jackie Robinson Educational Complex, a New York City public school located at 1573 Madison Avenue, New York, New York. 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 period from December 14, 2010 (inception) to June 30, 2012, the School did not incur any overtime permit fees.

8. Contingencies

Certain grants and contracts are subject to audit by funding sources. Such audits may result in disallowances of costs submitted for reimbursement. Management is of the opinion that such cost disallowances, if any, will not have material effect on the accompanying financial statements.

East Harlem Scholars Academy Charter School

Notes to Financial Statements
June 30, 2012

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. For the period from December 14, 2010 (Inception) to June 30, 2012, the School had not contributed to the plan.

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

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

We have audited the financial statements of East Harlem Scholars Academy Charter School (the "School") as of and for the period from December 14, 2010 (inception) to June 30, 2012, and have issued our report thereon dated October 18, 2012. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the School is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the School's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the School's internal control over financial reporting.

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 over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined previously.

Compliance and Other Matters

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

We noted certain other matters that we reported to the management of East Harlem Scholars Academy Charter School in a separate letter dated October 18, 2012.

This report is intended solely for the information and use of the audit committee, Board of Trustees, management, the Charter Schools Institute of the State Education Department of the University of the State of New York and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

O'Connell Davies, LLP

New York, New York
October 18, 2012