

**East Harlem Scholars Academy  
Charter School**

Financial Statements

June 30, 2013

## Independent Auditors' Report

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

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, 2013, 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, 2013, 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.

***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, 2013 on pages 15 and 16 are presented for purposes of additional analysis and are 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 28, 2013 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* in considering East Harlem Scholars Academy Charter School's internal control over financial reporting and compliance.

*O'Connor Davies, LLP*

October 28, 2013

**East Harlem Scholars Academy Charter School**

Statement of Financial Position  
June 30, 2013

**ASSETS**

Cash and cash equivalents	\$ 158,769
Grants receivable	453,314
Prepaid expenses and other assets	45,663
Restricted cash	50,000
Property and equipment, net	<u>237,626</u>
	<u>\$ 945,372</u>

**LIABILITIES AND NET ASSETS**

Liabilities	
Accounts payable and accrued expenses	\$ 191,536
Due to EHTP	<u>363,607</u>
Total Liabilities	555,143
Net Assets, unrestricted	<u>390,229</u>
	<u>\$ 945,372</u>

## East Harlem Scholars Academy Charter School

### Statement of Activities Year Ended June 30, 2013

#### REVENUE AND SUPPORT

Public School District -	
State and local per pupil operating revenue	\$ 2,507,351
Government grants and contracts	833,210
Contributions from foundations	131,000
Other income	<u>4,533</u>
Total Revenue and Support	<u>3,476,094</u>

#### EXPENSES

Program services	3,005,628
Management and general	344,665
Fundraising	<u>62,474</u>
Total Expenses	<u>3,412,767</u>
Change in Net Assets	63,327

#### NET ASSETS

Beginning of year	<u>326,902</u>
End of year	<u>\$ 390,229</u>

**East Harlem Scholars Academy Charter School**

Statement of Functional Expenses  
Year Ended June 30, 2013

	Program Services					Management and General	Fundraising	Total
	General Education	Special Education	Supplemental Education	Total Program Services	and General			
Instructional Salaries	\$ 759,542	\$ 352,686	\$ 5,260	\$ 1,117,488	\$ -	\$ -	\$ 1,117,488	
Administrative Staff Salaries	340,792	57,190	-	397,982	58,354	8,884	465,220	
Fringe Benefits & Payroll Taxes	197,943	74,709	-	272,652	10,483	1,596	284,731	
Retirement	17,786	6,933	-	24,719	822	121	25,662	
Total Salaries and Related Expenses	1,316,063	491,518	5,260	1,812,841	69,659	10,601	1,893,101	
Legal services	1,175	458	-	1,633	934	8	2,575	
Accounting and audit services	-	-	-	-	21,000	-	21,000	
Other professional and consulting services	424,452	132,888	-	557,340	199,989	50,828	808,157	
Repairs and maintenance	3,440	1,341	-	4,781	1,109	23	5,913	
Insurance	10,209	3,979	-	14,188	472	70	14,730	
Supplies and materials	114,018	33,875	267	148,160	445	15	148,620	
Equipment and furnishings	6,809	2,654	-	9,463	315	46	9,824	
Staff development	22,473	7,299	-	29,772	11,111	80	40,963	
Marketing and recruitment	36,675	3,896	-	40,571	150	22	40,743	
Technology	42,640	16,621	-	59,261	1,970	291	61,522	
Food service	99,955	28,514	-	128,469	-	-	128,469	
Student Services	7,774	2,218	88,616	98,608	-	-	98,608	
Office expenses	11,819	4,563	-	16,382	33,697	78	50,157	
Depreciation	51,549	20,094	-	71,643	2,382	351	74,376	
Other expenses	9,006	3,510	-	12,516	1,432	61	14,009	
Totals	\$ 2,158,057	\$ 753,428	\$ 94,143	\$ 3,005,628	\$ 344,665	\$ 62,474	\$ 3,412,767	

**East Harlem Scholars Academy Charter School**

Statement of Cash Flows  
June 30, 2013

**CASH FLOWS FROM OPERATING ACTIVITIES**

Changes in net assets	\$ 63,327
Adjustments to reconcile change in net assets to net cash from operating activities	
Depreciation	74,376
Changes in operating assets and liabilities	
Accounts receivable	(91,553)
Prepaid expenses	19,977
Accounts payable and accrued expenses	(13,355)
Due to EHTP	181,306
Deferred revenue	<u>(1,762)</u>
Net Cash from Operating Activities	232,316

**CASH FLOWS FROM INVESTING ACTIVITIES**

Purchases of property and equipment	<u>(213,603)</u>
Net Change in Cash and Cash Equivalents	18,713

**CASH AND CASH EQUIVALENTS**

Beginning of period	<u>140,056</u>
End of period	<u><u>\$ 158,769</u></u>

# East Harlem Scholars Academy Charter School

Notes to Financial Statements

June 30, 2013

## 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, and will add a grade each year until it serves kindergarten through 5<sup>th</sup> grade.

On January 1, 2013, an amendment to the School's charter was approved to open East Harlem Scholars Academy Charter School II which will open in the fall of 2013. The School's financial statements include the start-up costs of this additional school. East Harlem Scholars Academy and the East Harlem Scholars Academy 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 period then ended. Actual results could differ from those estimates.

### ***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 \$50,000 to cover debts in the event of the School's dissolution.



## East Harlem Scholars Academy Charter School

Notes to Financial Statements  
June 30, 2013

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

#### ***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. 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, 2013.

#### ***Presentation of Net Assets***

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, 2013.

#### ***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.

## East Harlem Scholars Academy Charter School

Notes to Financial Statements

June 30, 2013

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

#### ***Revenue Recognition (continued)***

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 US 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 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.

#### ***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.

## East Harlem Scholars Academy Charter School

Notes to Financial Statements  
June 30, 2013

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

#### ***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 2010.

#### ***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 28, 2013 and has accounted for or disclosed such events, as appropriate, in these financial statements.

### 3. 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 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 \$2,507,351 at June 30, 2013. 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 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.

## East Harlem Scholars Academy Charter School

### Notes to Financial Statements

June 30, 2013

#### 4. Grants Receivable

Grants and accounts receivable are deemed to be fully collectible by management and consist of the following at June 30, 2013:

Federal	\$ 151,687
State	171,627
Other	<u>130,000</u>
	<u>\$ 453,314</u>

#### 5. Property and Equipment, Net

Property and equipment consist of the following at June 30, 2013:

Computers and other equipment	\$ 228,620
Furniture and fixtures	79,875
Leasehold improvements	<u>30,676</u>
	339,171
Less: Accumulated depreciation	<u>(101,545)</u>
	<u>\$ 237,626</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, approved by a supermajority of the board. Shared operating costs are allocated to the School based on employee hours spent. As of June 30, 2013 the total shared operating costs allocated from EHTP amounted to \$491,096. 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 US 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, 2013

#### **7. Agreement with School Facility**

The School has agreement through school year 2015-2016 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 year ended June 30, 2013, 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.

#### **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 year ended June 30, 2013, the School had contributed \$25,662 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***

**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 Standard* 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, 2013, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 28, 2013.

***Internal Control Over Financial Reporting***

In planning and performing our audit of the financial statements, we considered the School's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control. Accordingly, we do not express an opinion on the effectiveness 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 School's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*O'Connor Davies, LLP*

October 28, 2013

**East Harlem Scholars Academy Charter School**

Supplemental Information  
June 30, 2013



**East Harlem Scholars Academy Charter School**

Schedule of Financial Position by School  
June 30, 2013

	Harlem Scholars Academy	Harlem Scholars Academy II	Eliminating Entry	Total
<b>ASSETS</b>				
Cash and cash equivalents	\$ 158,769	\$ -	\$ -	\$ 158,769
Grants receivable	316,955	136,359	-	453,314
Prepaid expenses and other assets	45,663	-	-	45,663
Restricted cash	50,000	-	-	50,000
Property and equipment, net	225,678	11,948	-	237,626
Due from East Harlem Scholars Academy II	<u>153,876</u>	<u>-</u>	<u>(153,876)</u>	<u>-</u>
	<u>\$ 950,941</u>	<u>\$ 148,307</u>	<u>\$ (153,876)</u>	<u>\$ 945,372</u>
 <b>LIABILITIES AND NET ASSETS</b>				
Liabilities				
Accounts payable and accrued expenses	\$ 188,036	\$ 3,500	\$ -	\$ 191,536
Due to East Harlem Tutorial Program	355,810	7,797	-	363,607
Due to East Harlem Scholars Academy	<u>-</u>	<u>153,876</u>	<u>(153,876)</u>	<u>-</u>
Total Liabilities	543,846	165,173	(153,876)	555,143
Net Assets, unrestricted	<u>407,095</u>	<u>(16,866)</u>	<u>-</u>	<u>390,229</u>
	<u>\$ 950,941</u>	<u>\$ 148,307</u>	<u>\$ (153,876)</u>	<u>\$ 945,372</u>

## East Harlem Scholars Academy Charter School

Schedule of Activities by School  
Year Ended June 30, 2013

	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	\$ 2,507,351	\$ -	\$ 2,507,351
Government grants and contracts	726,851	106,359	833,210
Contributions from foundations	101,000	30,000	131,000
Other income and losses	4,533	-	4,533
Total Revenue and Support	3,339,735	136,359	3,476,094
<b>EXPENSES</b>			
Program services	2,904,290	101,338	3,005,628
Management and general	340,601	4,064	344,665
Fundraising	14,651	47,823	62,474
Total Expenses	3,259,542	153,225	3,412,767
Change in Net Assets	80,193	(16,866)	63,327
<b>NET ASSETS (DEFICIT)</b>			
Beginning of year	326,902	-	326,902
End of year	\$ 407,095	\$ (16,866)	\$ 390,229