

HARLEM PREP CHARTER SCHOOL
(A Not-For-Profit Corporation)

FINANCIAL STATEMENTS

JUNE 30, 2013 AND 2012

HARLEM PREP CHARTER SCHOOL
(A Not-For-Profit Corporation)
FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012

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INDEPENDENT AUDITORS' REPORT

TO THE BOARD OF TRUSTEES OF
HARLEM PREP CHARTER SCHOOL

Report on the Financial Statements

We have audited the accompanying financial statements of Harlem Prep Charter School (the "School") (a not-for-profit corporation), which comprise the statement of financial position as of June 30, 2013, and the related statements of activities, functional expenses, and cash flows for the 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.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the School as of June 30, 2013, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the School's 2012 financial statements, and our report dated October 25, 2012, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2012, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 24, 2013, on our consideration of the School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control over financial reporting and compliance.


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

New York, New York
October 24, 2013

HARLEM PREP CHARTER SCHOOL
(A Not-For-Profit Corporation)
STATEMENTS OF FINANCIAL POSITION
JUNE 30,

| | 2013 | 2012 |
|--|---------------------|---------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 2,696,431 | \$ 1,717,691 |
| Grants and contracts receivable | 163,522 | 244,922 |
| Prepaid expenses | 1,869 | 40,975 |
| Due from related parties | 144,060 | 48,150 |
| Total current assets | 3,005,882 | 2,051,738 |
| Property and equipment, net of accumulated depreciation and amortization of \$4,379,083 and \$3,973,720, respectively | 2,531,501 | 2,860,771 |
| Restricted cash | 75,220 | 70,042 |
| TOTAL ASSETS | \$ 5,612,603 | \$ 4,982,551 |
| LIABILITIES AND UNRESTRICTED NET ASSETS | | |
| Current liabilities: | | |
| Accounts payable and accrued expenses | \$ 272,013 | \$ 249,638 |
| Accrued payroll and payroll taxes | 272,041 | 149,867 |
| Total current liabilities | 544,054 | 399,505 |
| Deferred rent | 289,572 | 303,236 |
| Total liabilities | 833,626 | 702,741 |
| Unrestricted net assets | 4,778,977 | 4,279,810 |
| TOTAL LIABILITIES AND UNRESTRICTED NET ASSETS | \$ 5,612,603 | \$ 4,982,551 |

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

HARLEM PREP CHARTER SCHOOL
(A Not-For-Profit Corporation)
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30,

| | 2013 | 2012 |
|---|--------------|--------------|
| Revenue and support: | | |
| State and local per pupil operating revenue | \$ 7,099,464 | \$ 4,106,456 |
| Federal grants | 433,308 | 335,500 |
| Federal E-rate | 98,591 | 55,763 |
| State and city grants | 38,045 | 25,829 |
| Contributions and grants | 334,733 | 215,561 |
| Fundraising | 85,748 | 108,151 |
| Interest and other income | 196 | 2,460 |
| | 8,090,085 | 4,849,720 |
| Expenses: | | |
| Program services: | | |
| Regular education | 5,443,149 | 3,416,614 |
| Special education | 1,203,939 | 352,867 |
| Other program | - | 10,305 |
| Total program services | 6,647,088 | 3,779,786 |
| Supporting services: | | |
| Management and general | 861,131 | 887,676 |
| Fundraising | 82,699 | 20,698 |
| | 7,590,918 | 4,688,160 |
| Changes in unrestricted net assets | 499,167 | 161,560 |
| Unrestricted net assets - beginning of year | 4,279,810 | 4,118,250 |
| Unrestricted net assets - end of year | \$ 4,778,977 | \$ 4,279,810 |

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

HARLEM PREP CHARTER SCHOOL
(A Not-For-Profit Corporation)
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30,

| | 2013 | 2012 |
|---|--------------|--------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Changes in unrestricted net assets | \$ 499,167 | \$ 161,560 |
| Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities: | | |
| Depreciation and amortization | 405,363 | 354,834 |
| Changes in assets and liabilities: | | |
| Decrease in grants and contracts receivables | 81,400 | 74,641 |
| Decrease in prepaid expenses | 39,106 | 2,408 |
| (Increase) in due from related parties | (95,910) | (48,150) |
| (Increase) in restricted cash | (5,178) | (70,042) |
| Increase in accounts payable and accrued expenses | 22,375 | 43,366 |
| Increase (Decrease) in accrued payroll and payroll taxes | 122,174 | (133,248) |
| (Decrease) Increase in refundable advances | - | (199,131) |
| (Decrease) in due to related parties | - | (210,000) |
| (Decrease) in deferred rent | (13,664) | (13,663) |
| NET CASH (USED IN) OPERATING ACTIVITIES | 1,054,833 | (37,425) |
| CASH FLOWS FROM INVESTING ACTIVITY: | | |
| Purchases of property and equipment | (76,093) | (67,002) |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 978,740 | (104,427) |
| CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR | 1,717,691 | 1,822,118 |
| CASH AND CASH EQUIVALENTS - END OF YEAR | \$ 2,696,431 | \$ 1,717,691 |

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

HARLEM PREP CHARTER SCHOOL
(A Not-For-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012

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

Nature of Organization

Harlem Prep Charter School (the "School") is a New York State, not-for-profit educational corporation that was incorporated on May 14, 2001 to operate a charter school pursuant to Article 56 of the Education Law of the State of New York. The School was granted a provisional charter on May 14, 2001 valid for a term of five years and renewable upon expiration by the Board of Regents of the University of the State of New York. During 2011, the Board of Regents extended the charter through July 31, 2016. The Charter School offers parents a free alternative to the public school system as provided by the New York State Charter School law. The School offers classroom instruction and programs that encourage and foster creativity and team planning while meeting the New York State educational standards. Classes commenced in New York, in September 2001 and the School provided education to approximately 467 students in kindergarten through sixth grade during the 2012-2013 academic year.

Food and Transportation

The School retained an outside vendor to provide meals for students in which the School receives Federal and New York State reimbursements. The Office of Pupil Transportation provides free transportation to the majority of the students during the district's school days.

Tax Status

The School is exempt from Federal income tax under Section 501(a) of the Internal Revenue Code as an organization described in Section 501(c)(3) and a similar provision under New York State income tax laws. The School has also been classified as an entity that is not a private foundation within the meaning of Section 509(a) and qualifies for deductible contributions as provided in section 170(b)(1)(A)(ii). The School is subject to income taxes only on net unrelated business income. The School did not have any unrelated business income for the years ended June 30, 2013 and 2012.

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

IRS forms 990 filed by the School are subject to examination by the Internal Revenue Service up to three years from the extended due date of each return. Forms 990 filed by the School are no longer subject to examination for the fiscal years ended June 30, 2009 and prior.

HARLEM PREP CHARTER SCHOOL
(A Not-For-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012

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

Basis of Presentation

The financial statement presentation follows the requirements of the Financial Accounting Standards Board (“FASB”) in its Accounting Standards Codification (“ASC”) No. 958-205 which provides guidance for the classification of net assets. The amounts for each of the three classes of net assets are based on the existence or absence of donor-imposed restrictions described as follows:

Unrestricted

Net assets of the School whose use has not been restricted by an outside donor or by law. They are available for any use in carrying out the operations of the School.

Temporarily Restricted

Net assets of the School whose use has been limited by donor-imposed stipulations that either expire with the passage of time or can be fulfilled and removed by actions of the School. When such stipulations end or are fulfilled, such temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities and changes in net assets, as net assets released from restrictions

Permanently Restricted

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

The School had no temporarily or permanently restricted net assets at June 30, 2013 and 2012.

Revenue and Support

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

HARLEM PREP CHARTER SCHOOL
(A Not-For-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012

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

Revenue and Support (continued)

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

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Cash and Cash Equivalents

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

Concentration of Credit Risk

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

Property and Equipment

Purchased property and equipment are recorded at cost. Maintenance and repairs are expensed as incurred. All property and equipment purchased with government funding, whereas the government agency retains legal title to the long lived asset is expensed as incurred. Depreciation and amortization is provided on the straight line method over the estimated useful lives as follows:

| | |
|-------------------------|------------------------------|
| Computers and equipment | 3 years |
| Furniture and fixtures | 3 and 5 years |
| Leasehold improvements | Useful life or related lease |

Refundable Advances

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

HARLEM PREP CHARTER SCHOOL
(A Not-For-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012

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

Deferred Rent

The School records its rent in accordance with FASB ASC 840-2 whereby all rental payments, including fixed rent increases are recognized on a straight-line basis as an offset to rent expense. The difference between the straight-line rent expense and the required lease payments, as well as any unamortized lease incentives, is reflected in the deferred rent in the accompanying financial statements.

Comparative Financial Information

The accompanying statements of activities and schedule of functional expenses are presented with summarized comparative information. Such prior year information is not presented by net asset class in the statements of activities or by functional category in the schedule of functional expenses. Accordingly, such information should be read in conjunction with the School's 2012 financial statements from which the summarized information was derived.

Reclassifications

Certain 2012 accounts have been reclassified to conform to the 2013 financial statement presentation. The reclassifications have no effect on 2012 total assets, liabilities, net assets and change in net assets.

NOTE 2 - GRANTS AND CONTRACTS RECEIVABLE

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

NOTE 3 - PROPERTY AND EQUIPMENT

Property and equipment consists of the following at June 30,:

| | 2013 | 2012 |
|---|--------------|--------------|
| Computers and equipment | \$ 654,872 | \$ 600,955 |
| Furniture and fixtures | 210,977 | 188,801 |
| Leasehold improvements | 6,044,735 | 6,044,735 |
| | 6,910,584 | 6,834,491 |
| Less: Accumulated depreciation and amortization | 4,379,083 | 3,973,720 |
| | \$ 2,531,501 | \$ 2,860,771 |

Depreciation and amortization expense was \$405,363 and \$354,834 for the years ended June 30, 2013 and 2012, respectively.

HARLEM PREP CHARTER SCHOOL
(A Not-For-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012

NOTE 4 - RELATED PARTY TRANSACTIONS

Harlem Prep Charter School (“HPCS”) is affiliated with three charter schools: Democracy Preparatory Charter School (“DPCS”), Democracy Preparatory Harlem Charter School (“DPH”), and Democracy Prep Endurance Charter School (“DPE”), all New York State not-for-profit organizations and managed by Democracy Prep Public School (“DPPS”).

The School is managed by DPPS, a New York State not-for-profit charter management organization. On August 1, 2011, the School entered into a management agreement with DPPS to assume responsibility for the School’s educational process, management, and operations. As compensation to DPPS for these services rendered, the School shall pay to DPPS an annual fee equal to 15% of the School’s non-competitive public revenue. The initial term is for two years beginning July 1, 2011 and ending on June 30, 2013. Following the initial term, the agreement will automatically extend for successive one-year periods unless terminated by either party. For the years ended June 30, 2013 and 2012, the School incurred \$1,109,458 and \$377,496 in management fees, respectively.

For operational efficiency and purchasing power, the School shares expenses with the related charter schools and charter management organization. The School was billed for net shared operational expenses for the years ended June 30:

| | <u>2013</u> | <u>2012</u> |
|------|-------------------|-------------------|
| DPCS | \$ 215,367 | \$ 106,447 |
| DPH | - | 8,830 |
| DPPS | 124,479 | - |
| DPE | <u>4,241</u> | <u>-</u> |
| | <u>\$ 344,087</u> | <u>\$ 115,277</u> |

The School is an affiliate of Democracy Builders, Inc. (“DBI”), a 501(c)(4) national advocacy organization that organizes parents to advocate for better school choices and educational outcomes for the children in their communities. The School entered into a consulting agreement with DBI to conduct charitable, scientific and educational activities. For the years ended June 30, 2013 and 2012, the School incurred \$67,921 and \$55,000 in consulting fees, respectively.

HARLEM PREP CHARTER SCHOOL
(A Not-For-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012

NOTE 4 - RELATED PARTY TRANSACTIONS (Continued)

The net balance due from (to) related parties consisted of the following at June 30,:

| | 2013 | 2012 |
|---|------------|------------|
| DPPS | \$ 230,396 | \$ 157,840 |
| DPCS | 49,144 | (87,498) |
| DBI | (122,921) | (13,750) |
| DPH | (8,318) | (8,442) |
| DPE | (4,241) | - |
| Net balance due from (to) related parties | \$ 144,060 | \$ 48,150 |

NOTE 5 - COMMITMENTS

School Facility

On June 4, 2001, the School entered into a non-cancelable operating lease for office and instructional space that expired on June 30, 2011, with a renewal option for an additional 5 years. The School exercised its option until June 30, 2016.

On June 1, 2005, the School entered into a non-cancelable operating lease for additional office and instructional space expiring on June 30, 2021, with a renewal option for an additional 10 years.

The future minimum lease payments under the two operating leases are as follows:

| | |
|-----------------------------------|--------------|
| For the year ending June 30, 2014 | \$ 400,370 |
| 2015 | 400,370 |
| 2016 | 420,095 |
| 2017 | 244,590 |
| 2018 | 244,590 |
| Thereafter | 733,770 |
| | \$ 2,443,785 |

The School recognizes rent expense on a straight-line basis over the term of the lease. Rent expense in excess of payments is recorded as deferred rent in the accompanying statements of financial position. Rent expense was \$400,370 and \$392,741 for the years ended June 30, 2013 and 2012, respectively.

Leased Equipment

The School leases office equipment under non-cancelable lease agreements expiring on various dates through August 2016.

HARLEM PREP CHARTER SCHOOL
(A Not-For-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012

NOTE 5 - COMMITMENTS (Continued)

The future minimum lease payments are as follows:

| | |
|-----------------------------------|-------------------|
| For the year ending June 30, 2014 | \$ 64,890 |
| 2015 | 58,440 |
| 2016 | 29,082 |
| 2017 | <u>4,569</u> |
| | <u>\$ 156,981</u> |

Equipment rental expense was \$74,894 and \$52,558 for the years ended June 30, 2013 and 2012, respectively.

NOTE 6 - CONTINGENCY

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

NOTE 7 - REVENUE CONCENTRATION

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

NOTE 8 - FUNCTIONAL ALLOCATION OF EXPENSE

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

NOTE 9 - RETIREMENT PLAN

The School maintains a retirement plan qualified under Internal Revenue Code 403(b) for the benefit of its eligible employees. Under the plan, the School will match employee contributions up to 5% of eligible compensation. The amount charged for matching contributions to this plan was \$59,420 and \$64,551 for the years ended June 30, 2013 and 2012, respectively.

HARLEM PREP CHARTER SCHOOL
(A Not-For-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012

NOTE 10 - SUBSEQUENT EVENTS

The School has evaluated its subsequent events through October 24, 2013, the date that the accompanying financial statements were issued. The School has no material events requiring disclosure.

FRUCHTER ROSEN & COMPANY, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

156 WEST 56TH STREET

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INDEPENDENT AUDITORS' REPORT
ON SUPPLEMENTARY INFORMATION

TO THE BOARD OF TRUSTEES OF
HARLEM PREP CHARTER SCHOOL

We have audited the financial statements of Harlem Prep Charter School as of and for the year ended June 30, 2013, and have issued our report thereon dated October 24, 2013, which contained an unmodified opinion on those financial statements. Our audit was performed for the purpose of forming an opinion on the financial statements as a whole. The schedule of functional expenses is presented for the purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.


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

New York, New York
October 24, 2013

HARLEM PREP CHARTER SCHOOL
(A Not-For-Profit Corporation)
SCHEDULE OF FUNCTIONAL EXPENSES
FOR THE YEARS ENDED JUNE 30,

2013

| | Program Services | | | Supporting Services | | | 2012 |
|--|---------------------|---------------------|---------------------|------------------------|------------------|---------------------|---------------------|
| | Regular Education | Special Education | Total | Management and General | Fundraising | Total | |
| Personnel services costs | | | | | | | |
| Administrative staff personnel | \$ - | \$ - | \$ - | \$ 205,554 | \$ - | \$ 205,554 | \$ 211,868 |
| Instructional personnel | 2,632,263 | 582,214 | 3,214,477 | 72,254 | - | 3,286,731 | 1,863,206 |
| Non-instructional personnel | 151,058 | 33,412 | 184,470 | 46,116 | - | 230,586 | 126,486 |
| Total salaries and staff | 2,783,321 | 615,626 | 3,398,947 | 323,924 | - | 3,722,871 | 2,201,560 |
| Fringe benefits and payroll taxes | 469,886 | 103,931 | 573,817 | 54,685 | - | 628,502 | 357,855 |
| Retirement | 44,424 | 9,826 | 54,250 | 5,170 | - | 59,420 | 66,923 |
| Management fees | 635,957 | 140,664 | 776,621 | 277,364 | 55,473 | 1,109,458 | 377,496 |
| Legal services | - | - | - | - | - | - | 177 |
| Accounting/audit services | - | - | - | 15,250 | - | 15,250 | 10,250 |
| Other purchased/professional/consulting services | 49,654 | 10,983 | 60,637 | 73,291 | - | 133,928 | 129,436 |
| Building and land rent/lease | 286,487 | 63,366 | 349,853 | 33,342 | - | 383,195 | 386,707 |
| Repairs and maintenance | 56,137 | 12,417 | 68,554 | 6,534 | - | 75,088 | 75,548 |
| Insurance | 40,668 | 8,995 | 49,663 | 4,733 | - | 54,396 | 44,599 |
| Utilities | 29,008 | 6,416 | 35,424 | 3,377 | - | 38,801 | 44,089 |
| Supplies and materials | 299,847 | 66,321 | 366,168 | - | 27,226 | 393,394 | 304,648 |
| Equipment/furnishings | 29,866 | 6,606 | 36,472 | 3,475 | - | 39,947 | 16,424 |
| Staff development | 112,629 | 24,912 | 137,541 | 12,934 | - | 150,475 | 84,000 |
| Marketing/recruitment | 18,057 | 3,994 | 22,051 | 257 | - | 22,308 | 14,347 |
| Technology | 60,403 | 13,360 | 73,763 | - | - | 73,763 | 8,653 |
| Food service | 207,213 | 45,832 | 253,045 | 7,574 | - | 260,619 | 199,221 |
| Student services | 2,104 | 466 | 2,570 | - | - | 2,570 | - |
| Office expense | 12,034 | 2,662 | 14,696 | 3,674 | - | 18,370 | 6,226 |
| Depreciation and amortization | 303,060 | 67,032 | 370,092 | 35,271 | - | 405,363 | 354,834 |
| Other | 2,394 | 530 | 2,924 | 276 | - | 3,200 | 5,167 |
| Total | <u>\$ 5,443,149</u> | <u>\$ 1,203,939</u> | <u>\$ 6,647,088</u> | <u>\$ 861,131</u> | <u>\$ 82,699</u> | <u>\$ 7,590,918</u> | <u>\$ 4,688,160</u> |

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

TO THE BOARD OF TRUSTEES OF
HARLEM PREP 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 Harlem Prep Charter School (the "School"), which comprise the statement of financial position as of June 30, 2013, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 24, 2013.

Internal Control Over Financial Reporting

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

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

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

TO THE BOARD OF TRUSTEES OF
HARLEM PREP CHARTER SCHOOL

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*.

We noted certain matters that we reported to the management of the School in a separate letter dated October 24, 2013.

Purpose of this Report

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


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

New York, New York
October 24, 2013

HARLEM PREP CHARTER SCHOOL

MANAGEMENT LETTER

JUNE 30, 2013

FRUCHTER ROSEN & COMPANY, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

156 WEST 56TH STREET

NEW YORK, NEW YORK 10019

TEL: (212) 957-3600

FAX: (212) 957-3696

October 24, 2013

Board of Trustees of
Harlem Prep Charter School
240 East 123rd Street
New York, NY 10035

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses. 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.

Exhibit I accompanying this letter summarizes an observation for the year ended June 30, 2013 that we determined did not constitute a significant deficiency or material weakness. Exhibit II summarizes corrective action not taken by the School during the year ended June 30, 2013 on prior year observation. Exhibit III summarizes corrective action taken by the School during the year ended June 30, 2013 on prior year observation. Management's response to the observation has not been subjected to the auditing procedures applied in the audit of the financial statements and accordingly, we express no opinion on it.

Board of Trustees of
Harlem Prep Charter School

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

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


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

New York, New York
October 24, 2013

HARLEM PREP CHARTER SCHOOL
MANAGEMENT LETTER
JUNE 30, 2013

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HARLEM PREP CHARTER SCHOOL
MANAGEMENT LETTER

EXHIBIT I – CURRENT YEAR OBSERVATION

A. INSURANCE COVERAGE

Observation

We noted insurance coverage under personal property is limited to \$3,050,000. This appears low based on the current cost of approximately \$6,900,000 maintained in the School's fixed asset register.

Recommendation

We recommend an increase of coverage for personal property to cover, at minimum, the cost maintained in your fixed asset register. In addition, the School should periodically review insurance coverage to ensure proper and adequate means by which to preserve School assets.

Management's response

Management accepts the recommendation and is in the process, with the insurance agency, to submit the required application to increase coverage.

HARLEM PREP CHARTER SCHOOL
MANAGEMENT LETTER

EXHIBIT II – CORRECTIVE ACTION NOT TAKEN ON PRIOR YEAR OBSERVATION

In conjunction with performing the audit of the School's financial statements for the year ended June 30, 2013, we followed up on the status of implementation of audit recommendations made for the year ended June 30, 2012. The status update on those matters is summarized below.

B. INSURANCE COVERAGE

Observation

We noted insurance coverage under employee dishonesty is limited to \$250,000. This appears low based on the current cash balance maintained in the School's general ledger of approximately \$1,700,000.

Recommendation

We recommend an increase of coverage of employee dishonesty that covers maximum cash held by the School at any one time during the year or at a minimum of \$1,000,000.

Current Year Status

During our 2013 audit, we noted that employee dishonesty coverage remained at \$250,000.

Updated Management's Response

Management accepts the recommendation and is in the process, with the insurance agency, to submit the required application to increase coverage.

HARLEM PREP CHARTER SCHOOL
MANAGEMENT LETTER

EXHIBIT III – CORRECTIVE ACTION TAKEN ON PRIOR YEAR OBSERVATION

C. ESCROW ACCOUNT FOR DISSOLUTION

Observation

Under the provision of The Charter Schools Institute of the State University of New York, the School should set aside as a dissolution reserve and earmark the funds in the books and records to pay for legal and audit expenses that would be associated with a dissolution should it occur. This account can be a regular savings, checking, and/or money market account. Existing schools should maintain a minimum balance of \$75,000 in the escrow account.

Recommendation

The School should establish an escrow account where monies are maintained in a separate account to pay for legal and audit expenses associated with dissolution should it occur. The account can be an interest bearing account where the School may withdraw the interest earned. This will improve the School's cash management practices when preparing an operating budget and cash projections.

Corrective Action Taken

During our 2013 audit, we noted the escrow account had a balance of \$75,220 at June 30, 2013.