

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

FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

HARLEM PREP CHARTER SCHOOL
(A Not-For-Profit Corporation)
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JUNE 30, 2015 AND 2014

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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, 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.

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 School'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 School'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, 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.

Other Matters

Report on Summarized Comparative Information

We have previously audited the School's 2014 financial statements, and our report dated October 30, 2014, 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, 2014, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. 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 20, 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, 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 20, 2015

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

	2015	2014
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 5,632,800	\$ 4,017,735
Grants and contracts receivable	782,279	732,340
Prepaid expenses and other current assets	2,891	82,507
	6,417,970	4,832,582
Property and equipment, net of accumulated depreciation and amortization of \$5,281,030 and \$4,815,665, respectively	1,901,119	2,245,600
Restricted cash	75,472	75,371
	\$ 8,394,561	\$ 7,153,553
TOTAL ASSETS	\$ 8,394,561	\$ 7,153,553
 LIABILITIES AND UNRESTRICTED NET ASSETS		
Current liabilities:		
Accounts payable and accrued expenses	\$ 653,884	\$ 517,817
Accrued payroll and payroll taxes	328,196	335,005
Refundable advances	32,376	45,992
Capital lease obligation	27,990	-
Due to related parties	1,291,563	687,059
	2,334,009	1,585,873
Total current liabilities	2,334,009	1,585,873
Other liabilities:		
Deferred rent	262,749	275,909
Capital lease obligation, less current portion	32,240	-
	294,989	275,909
Total other liabilities	294,989	275,909
Total liabilities	2,628,998	1,861,782
Unrestricted net assets	5,765,563	5,291,771
	\$ 8,394,561	\$ 7,153,553
TOTAL LIABILITIES AND UNRESTRICTED NET ASSETS	\$ 8,394,561	\$ 7,153,553

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,

	<u>2015</u>	<u>2014</u>
Revenue and support:		
State and local per pupil operating revenue	\$ 10,075,895	\$ 9,013,726
Federal grants	864,664	663,401
Federal E-rate	158,371	71,565
State and city grants	72,083	51,581
Contributions and grants	33,584	131,359
Fundraising	-	5,100
Interest and other income	21,369	180
Total revenue and support	<u>11,225,966</u>	<u>9,936,912</u>
Expenses:		
Program services:		
Regular education	7,794,790	6,949,355
Special education	1,224,687	1,002,090
Other program	5,829	5,327
Total program services	<u>9,025,306</u>	<u>7,956,772</u>
Supporting services:		
Management and general	1,726,868	1,467,346
Total expenses	<u>10,752,174</u>	<u>9,424,118</u>
Changes in unrestricted net assets	473,792	512,794
Unrestricted net assets - beginning of year	<u>5,291,771</u>	<u>4,778,977</u>
Unrestricted net assets - end of year	<u><u>\$ 5,765,563</u></u>	<u><u>\$ 5,291,771</u></u>

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,

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in unrestricted net assets	\$ 473,792	\$ 512,794
Adjustments to reconcile changes in unrestricted net assets to net cash provided by operating activities:		
Depreciation and amortization	465,365	436,582
Changes in assets and liabilities:		
(Increase) in grants and contracts receivable	(49,939)	(568,818)
Decrease (Increase) in prepaid expenses	79,616	(80,638)
Decrease in due from related parties	-	144,060
Increase in accounts payable and accrued expenses	136,067	245,804
(Decrease) Increase in accrued payroll and payroll taxes	(6,809)	62,964
(Decrease) Increase in refundable advances	(13,616)	45,992
Increase in due to related parties	604,504	687,059
(Decrease) in deferred rent	(13,160)	(13,663)
NET CASH PROVIDED BY OPERATING ACTIVITIES	1,675,820	1,472,136
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(36,405)	(150,681)
(Increase) in restricted cash	(101)	(151)
NET CASH (USED IN) INVESTING ACTIVITIES	(36,506)	(150,832)
CASH FLOWS FROM FINANCING ACTIVITY:		
Payments made on capital lease obligation	(24,249)	-
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,615,065	1,321,304
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	4,017,735	2,696,431
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 5,632,800	\$ 4,017,735
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid during the year for interest	\$ 3,979	\$ -
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES:		
Computers and equipment acquired under a capital lease	\$ 84,479	\$ -

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, 2015 AND 2014

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 668 students in kindergarten through eighth grade during the 2014-2015 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, 2015 and 2014.

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, 2011 and prior.

HARLEM PREP CHARTER SCHOOL
(A Not-For-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014

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, 2015 and 2014.

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. 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.

HARLEM PREP CHARTER SCHOOL
(A Not-For-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014

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

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.

Restricted Cash

Under the provisions of its charter, the School established an escrow account to pay for legal and audit expenses that would be associated with a dissolution should it occur.

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, 2015 AND 2014

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

Deferred Rent

The School records its rent in accordance with FASB ASC 840-20 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 2014 financial statements from which the summarized information was derived.

Reclassifications

Certain 2014 accounts have been reclassified to conform to the 2015 financial statement presentation. The reclassifications have no effect on 2014 total assets, liabilities, net assets, and changes in net assets.

NOTE 2 - GRANTS AND CONTRACTS RECEIVABLE

Grants and contracts receivable consist of federal, state, and city 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,:

	2015	2014
Computers and equipment	\$ 892,647	\$ 785,092
Furniture and fixtures	244,767	231,438
Leasehold improvements	6,044,735	6,044,735
	7,182,149	7,061,265
Less: Accumulated depreciation and amortization	5,281,030	4,815,665
	\$ 1,901,119	\$ 2,245,600

Depreciation and amortization expense was \$465,365 and \$436,582 for the years ended June 30, 2015 and 2014, respectively.

HARLEM PREP CHARTER SCHOOL
(A Not-For-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014

NOTE 4 - RELATED PARTY TRANSACTIONS

Harlem Prep Charter School (“HPCS”) is affiliated with five charter schools: Democracy Preparatory Charter School (“DPCS”), Democracy Preparatory Harlem Charter School (“DPH”), Democracy Prep Endurance Charter School (“DPE”), and Bronx Preparatory Charter School (“BPCS”), all New York State not-for-profit organizations. Democracy Prep Congress Heights (“DPCH”) is a Washington, DC not-for-profit organization. All are 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. The percentage will decrease by one-half percent (0.5%) in each renewal term until it reaches a minimum of 12% of the non-competitive public revenue of the School and will remain in effect for all subsequent renewal terms. 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, 2015 and 2014, DPPS charged an annual management fee to the School of 14% and 14.5%, respectively. For the years ended June 30, 2015 and 2014, the School incurred \$1,483,706 and \$1,343,708 in management fees, respectively.

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 perform student recruitment and enrollment, family engagement, parent advocacy initiatives and training, and government relations. As compensation to DBI for these services rendered, the School shall pay to DBI an annual fee equal to 1% of the School’s total per-pupil funding. For the years ended June 30, 2015 and 2014, the School incurred \$100,759 and \$90,137 in consulting 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>2015</u>	<u>2014</u>
DPCS	\$ 150,999	\$ 208,638
DPH	411,402	7,608
DPE	231,089	5,481
BPCS	6,094	-
DPPS	127,538	141,751
DBI	2,279	2,468
DPCH	<u>563</u>	<u>-</u>
	<u>\$ 929,964</u>	<u>\$ 365,946</u>

HARLEM PREP CHARTER SCHOOL
(A Not-For-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014

NOTE 4 - RELATED PARTY TRANSACTIONS (Continued)

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

	2015	2014
DPCS	\$ (124,213)	\$ (269,216)
DPH	(725,823)	(317,483)
DPE	(353,336)	(124,668)
BPCS	(6,094)	-
DPPS	(81,521)	22,043
DBI	(13)	2,265
DPCH	(563)	-
Net balance due from (to) related parties	\$ (1,291,563)	\$ (687,059)

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, 2016	\$ 420,095
2017	244,590
2018	244,590
2019	244,590
2020	244,590
Thereafter	244,590
	\$ 1,643,045

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 \$393,026 and \$385,198 for the years ended June 30, 2015 and 2014, respectively.

Leased Equipment

The School leases office equipment under non-cancelable lease agreements expiring on various dates through November 2017.

HARLEM PREP CHARTER SCHOOL
(A Not-For-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014

NOTE 5 - COMMITMENTS (Continued)

The future minimum lease payments are as follows:

For the year ending June 30, 2016	\$	88,248
2017		64,569
2018		<u>25,000</u>
		<u>\$ 177,817</u>

Equipment rental expense was \$154,164 and \$109,749 for the years ended June 30, 2015 and 2014, 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 - CAPITAL LEASE OBLIGATION

The School leases computers and equipment under a capital lease that expires in July 2017. The asset and liability under the capital lease are recorded at the present value of the minimum lease payments. The asset is being depreciated over its estimated useful life. Depreciation of the asset under the capital lease is included in depreciation expense.

Following is a summary of property and equipment held under capital lease:

Computers and equipment	\$	84,479
Less: accumulated depreciation		<u>(23,466)</u>
		<u>\$ 61,013</u>

The future minimum lease payments are as follows:

For the year ending June 30, 2016	\$	30,795
2017		30,795
2018		<u>2,566</u>
Total minimum lease payments		64,156
Less: amounts representing interest		<u>(3,926)</u>
Present value of minimum lease payments		<u>60,230</u>
Less: current portion		<u>(27,990)</u>
Capital lease obligation, less current portion		<u>\$ 32,240</u>

HARLEM PREP CHARTER SCHOOL
(A Not-For-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014

NOTE 8 - 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 9 - 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 10 - 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 \$105,514 and \$84,579 for the years ended June 30, 2015 and 2014, respectively.

NOTE 11 - SUBSEQUENT EVENTS

The School has evaluated its subsequent events through October 20, 2015, 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

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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 (a not-for-profit corporation) as of and for the year ended June 30, 2015, and have issued our report thereon dated October 20, 2015, 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 20, 2015

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

	No. of Positions	2015						2014
		Program Services			Total	Supporting Services		
		Regular Education	Special Education	Other Program		Management and General	Total	
Personnel services costs								
Administrative staff personnel	8	\$ -	\$ -	\$ -	\$ -	\$ 440,597	\$ 440,597	\$ 283,080
Instructional personnel	73	3,564,957	565,700	-	4,130,657	454,248	4,584,905	4,156,474
Non-instructional personnel	3	146,557	18,114	-	164,671	-	164,671	159,064
Total salaries and staff	84	3,711,514	583,814	-	4,295,328	894,845	5,190,173	4,598,618
Fringe benefits and payroll taxes		632,456	99,484	-	731,940	152,485	884,425	771,777
Retirement		81,708	12,852	-	94,560	19,700	114,260	86,289
Management fees		1,061,004	166,894	-	1,227,898	255,808	1,483,706	1,343,708
Accounting/audit services		-	-	-	-	22,750	22,750	22,750
Other purchased/professional/consulting services		161,533	26,153	-	187,686	35,134	222,820	167,330
Building and land rent/lease		281,055	44,209	-	325,264	67,762	393,026	385,198
Repairs and maintenance		68,874	9,590	-	78,464	8,719	87,183	65,814
Insurance		60,072	8,364	-	68,436	7,604	76,040	68,366
Utilities		58,359	8,126	-	66,485	7,387	73,872	93,129
Supplies and materials		676,134	94,145	5,829	776,108	85,592	861,700	549,480
Equipment/furnishings		-	-	-	-	39,809	39,809	24,923
Staff development		155,555	31,788	-	187,343	6,222	193,565	183,861
Marketing/recruitment		29,647	6,058	-	35,705	-	35,705	40,203
Technology		70,470	9,812	-	80,282	8,921	89,203	54,996
Food service		368,603	75,324	-	443,927	12,419	456,346	479,572
Student services		3,796	-	-	3,796	-	3,796	3,977
Office expense		-	-	-	-	44,479	44,479	22,445
Depreciation and amortization		362,985	46,536	-	409,521	55,844	465,365	436,582
Other		11,025	1,538	-	12,563	1,388	13,951	25,100
Total		\$ 7,794,790	\$ 1,224,687	\$ 5,829	\$ 9,025,306	\$ 1,726,868	\$ 10,752,174	\$ 9,424,118

FRUCHTER ROSEN & COMPANY, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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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") (a not-for-profit corporation), which comprise the statement of financial position as of June 30, 2015, 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 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 School'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 20, 2015.

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 20, 2015

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

TO THE BOARD OF TRUSTEES OF
HARLEM PREP CHARTER SCHOOL

Report on Compliance for Each Major Federal Program

We have audited Harlem Prep Charter School's (the "School") (a not-for-profit corporation) compliance with the types of compliance requirements described in the OMB Circular A-133 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 auditor's 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.

Auditor's 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, the 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.

TO THE BOARD OF TRUSTEES OF
HARLEM PREP CHARTER SCHOOL

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.


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

New York, New York
October 20, 2015

HARLEM PREP CHARTER SCHOOL
(A Not-For-Profit Corporation)
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2015

A - SUMMARY OF AUDITORS' RESULTS

1. The auditors' report expresses an unmodified opinion on the financial statements of Harlem Prep Charter School.
2. No significant deficiencies and no material weaknesses were discovered during the audit of the financial statements.
3. No instances of noncompliance material to the financial statements of Harlem Prep Charter School, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. No significant deficiencies and no material weaknesses relating to the audit of the major federal award programs are reported in accordance with OMB Circular A-133.
5. The auditors' report on compliance for the major federal award programs for Harlem Prep Charter School expresses an unmodified opinion on all major federal programs.
6. No audit findings relative to the major federal award programs for Harlem Prep Charter School are reported in this schedule.
7. The programs tested as major programs included:
 - Title I, Part A, CFDA No. 84.010
 - National School Breakfast Program, CFDA No. 10.533
 - National School Lunch Program, CFDA No. 10.555
8. The threshold used for distinguishing between Type A and B programs was \$300,000.
9. Harlem Prep Charter School did not qualify as a low risk auditee.

B - FINDINGS - FINANCIAL STATEMENTS AUDIT

None

C - FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT

None

HARLEM PREP CHARTER SCHOOL
(A Not-For-Profit Corporation)
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2015

Federal Grantor Pass-through Grantor Program Name/Cluster	Federal CFDA Number	Federal Expenditures
U.S. Department of Education:		
Passed through the New York State		
Education Department:		
Charter Schools Program	84.282	\$ 2,500
Title I Part A	84.010	425,017
Title II Part A	84.367	14,790
Passed through the New York City		
Department of Education:		
Special Education - IDEA	84.027	66,035
Total U.S. Department of Education		<u>508,342</u>
U.S. Department of Agriculture:		
Passed through the New York State		
Education Department:		
Child Nutrition Cluster		
National School Breakfast Program	10.553	56,981
National School Lunch Program	10.555	299,341
Total U.S. Department of Agriculture		<u>356,322</u>
Total Expenditures of Federal Awards		<u>\$ 864,664</u>

See accompanying notes to schedule of expenditures of federal awards.

HARLEM PREP CHARTER SCHOOL
(A Not-For-Profit Corporation)
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2015

NOTE A - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Harlem Prep Charter School and is presented on the accrual basis of accounting for the year ended June 30, 2015. The information in this schedule is presented in accordance with the requirements on OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements.

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

MANAGEMENT LETTER

JUNE 30, 2015

FRUCHTER ROSEN & COMPANY, P.C.

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October 20, 2015

To the 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") (a not-for-profit corporation) 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 the 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 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 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 summarizes current year status of prior year's observations. Management's responses to the observations have not been subjected to the auditing procedures applied in the audit of the financial statements and accordingly, we express no opinion on it.

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

We have already discussed these comments and suggestions with management. We would be pleased to discuss these comments with you at greater length and assist you in the implementation of any of our recommendations should you desire.

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 20, 2015

HARLEM PREP CHARTER SCHOOL
(A Not-For-Profit Corporation)
MANAGEMENT LETTER
JUNE 30, 2015

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EXHIBIT I – CURRENT YEAR STATUS OF PRIOR YEAR OBSERVATIONS

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HARLEM PREP CHARTER SCHOOL
(A Not-For-Profit Corporation)
MANAGEMENT LETTER
JUNE 30, 2015

EXHIBIT I – CURRENT YEAR STATUS OF PRIOR YEAR OF PRIOR YEAR OBSERVATIONS

In conjunction with performing the audit of the School's financial statements for the year ended June 30, 2015, we followed up on the status of implementation of audit recommendations made for the year ended June 30, 2014. The status update on those matters is summarized below.

A. INCOMPLETE STUDENT FILES

Observation

During our 2014 audit, we noted the following exceptions during our test of 15 student files. Three out of fifteen student files did not contain proof of residency.

Recommendation

In an effort to ensure that student records are complete, we recommend developing a checklist that includes all required documentation. This checklist should be utilized periodically to insure that information is complete and updated for each student file.

Current Year Status

During our 2015 audit, maintenance of student files and records did not improve and we noted the following exceptions during our test of 15 student files:

- 1 file did not contain an enrollment form.
- 1 file did not contain home language survey.
- 1 file did not contain an ethnicity form.
- 3 files did not contain prior school records.
- 4 files did not contain proper proof of residency.
- 1 file did not contain student medical records.
- 1 file did not contain a media release form.

Updated Management's Response

Management recognizes this observation and will work with the school based operations team to begin a process of ongoing internal audits of student files to ensure that all required documentations are complete and correct.

HARLEM PREP CHARTER SCHOOL
(A Not-For-Profit Corporation)
MANAGEMENT LETTER
JUNE 30, 2015

EXHIBIT I – CURRENT YEAR STATUS OF PRIOR YEAR OBSERVATIONS

B. GENERAL LEDGER MAINTENANCE AND ACCOUNT ANALYSIS

Observation

Although schedules were prepared during our audit field work, these schedules and reconciliations were not prepared and updated throughout the fiscal year ended June 30, 2014. This resulted in various adjustments to the general ledger during the year end closing and preparation of the audit package, which delayed the start and completion of the audit. These adjustments and delays could have been minimized had accounts been analyzed and compared with the general ledger on a regular basis throughout the year.

Recommendation

Management should be analyzing accounts and reconciling with the general ledger more completely on a monthly or quarterly basis. Additional in-depth account analysis will help the School detect and correct errors on a more timely basis. Management should also increase the financial support throughout the year.

Current Year Status

Although we noted improvements during our 2015 audit, we still encountered delays to the start of the audit because analysis of schedules and account reconciliations were not prepared and updated throughout the fiscal year. In addition, we did not have any significant adjustments to the general ledger during our 2015 audit.

Updated Management's Response

Management recognizes this observation and with the addition of a Senior Accountant to the team, we will push for general ledger maintenance and ongoing schedule preparations and reconciliations to occur throughout the year.