

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

FINANCIAL STATEMENTS

JUNE 30, 2016
(with comparative financial information for June 30, 2015)

HARLEM PREP CHARTER SCHOOL
(A Not-For-Profit Corporation)
FINANCIAL STATEMENTS
JUNE 30, 2016
(with comparative financial information for June 30, 2015)

CONTENTS

	<u>PAGE</u>
INDEPENDENT AUDITORS' REPORT	1 – 2
FINANCIAL STATEMENTS:	
Statements of financial position	3
Statements of activities	4
Statements of functional expenses	5
Statements of cash flows	6
Notes to financial statements	7 – 15
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 <i>GOVERNMENT AUDITING STANDARDS</i>	16 – 17

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

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, 2016, 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 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, 2016, 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 2015 financial statements, and our report dated October 20, 2015, 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, 2015, 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 31, 2016, 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 31, 2016

HARLEM PREP CHARTER SCHOOL
(A Not-For-Profit Corporation)
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2016

(with comparative financial information for June 30, 2015)

	2016	2015
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 4,765,631	\$ 5,632,800
Grants and contracts receivable	674,683	782,279
Prepaid expenses and other current assets	54,201	2,891
Total current assets	5,494,515	6,417,970
Property and equipment, net of accumulated depreciation and amortization of \$5,645,617 and \$5,281,030, respectively	1,866,128	1,901,119
Restricted cash	75,548	75,472
TOTAL ASSETS	\$ 7,436,191	\$ 8,394,561
 LIABILITIES AND UNRESTRICTED NET ASSETS		
Current liabilities:		
Accounts payable and accrued expenses	\$ 475,787	\$ 333,342
Accrued payroll and payroll taxes	369,952	328,196
Refundable advances	5,898	32,376
Capital lease obligation	32,750	27,990
Due to related parties	159,101	1,291,563
Total current liabilities	1,043,488	2,013,467
Other liabilities:		
Deferred rent	235,395	262,749
Capital lease obligation, less current portion	6,213	32,240
Total other liabilities	241,608	294,989
Total liabilities	1,285,096	2,308,456
Unrestricted net assets:		
Undesignated	5,830,552	5,765,562
Board-designated	320,543	320,543
Total unrestricted net assets	6,151,095	6,086,105
TOTAL LIABILITIES AND UNRESTRICTED NET ASSETS	\$ 7,436,191	\$ 8,394,561

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 YEAR ENDED JUNE 30, 2016

(with summarized compared financial information for the year ended June 30, 2015)

	2016	2015
Revenue and support:		
State and local per pupil operating revenue	\$ 10,217,413	\$ 10,075,895
Federal grants	543,341	1,023,035
State and city grants	42,445	72,083
Contributions and grants	25,700	33,584
Donated services	16,098	-
Interest and other income	95	21,369
Total revenue and support	10,845,092	11,225,966
Expenses:		
Program services:		
Regular education	8,122,348	7,794,790
Special education	1,069,046	1,224,687
Other program	4,075	5,829
Total program services	9,195,469	9,025,306
Supporting services:		
Management and general	1,584,633	1,726,868
Total expenses	10,780,102	10,752,174
Changes in unrestricted net assets	64,990	473,792
Unrestricted net assets - beginning of year	6,086,105	5,612,313
Unrestricted net assets - end of year	\$ 6,151,095	\$ 6,086,105

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

HARLEM PREP CHARTER SCHOOL
(A Not-For-Profit Corporation)
STATEMENTS OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2016

(with summarized comparative financial information for the year ended June 30, 2015)

	2016						2015
	Program Services			Total	Management and General	Total	
	Regular Education	Special Education	Other Program				
Personnel services costs:							
Administrative staff personnel	\$ -	\$ -	\$ -	\$ -	\$ 429,108	\$ 429,108	\$ 440,597
Instructional personnel	4,055,987	518,104	-	4,574,091	418,419	4,992,510	4,584,905
Non-instructional personnel	251,612	31,098	-	282,710	-	282,710	164,671
Total salaries and staff	<u>4,307,599</u>	<u>549,202</u>	<u>-</u>	<u>4,856,801</u>	<u>847,527</u>	<u>5,704,328</u>	<u>5,190,173</u>
Fringe benefits and payroll taxes	731,889	93,313	-	825,202	144,001	969,203	884,425
Retirement	135,891	17,326	-	153,217	26,736	179,953	114,260
Management fees	1,079,476	137,629	-	1,217,105	212,388	1,429,493	1,483,706
Donated legal services	-	-	-	-	16,098	16,098	-
Accounting/audit services	-	-	-	-	20,250	20,250	22,750
Other purchased/professional/consulting services	163,107	29,157	-	192,264	13,313	205,577	222,820
Building and land rent/lease	297,694	37,955	-	335,649	58,572	394,221	393,026
Repairs and maintenance	164,125	22,853	-	186,978	20,775	207,753	87,183
Insurance	57,595	8,020	-	65,615	7,290	72,905	76,040
Utilities	55,002	7,659	-	62,661	6,962	69,623	73,872
Supplies and materials	577,944	80,473	4,075	662,492	73,158	735,650	861,700
Equipment/furnishings	-	-	-	-	33,767	33,767	39,809
Staff development	109,737	23,604	-	133,341	4,651	137,992	193,565
Marketing/recruitment	26,794	5,764	-	32,558	-	32,558	35,705
Technology	81,707	11,377	-	93,084	10,343	103,427	89,203
Food services	22,970	4,941	-	27,911	75	27,986	456,346
Student services	2,620	-	-	2,620	-	2,620	3,796
Office expense	-	-	-	-	41,959	41,959	44,479
Depreciation and amortization	284,378	36,459	-	320,837	43,750	364,587	465,365
Other	23,820	3,314	-	27,134	3,018	30,152	13,951
Total expenses	<u>\$ 8,122,348</u>	<u>\$ 1,069,046</u>	<u>\$ 4,075</u>	<u>\$ 9,195,469</u>	<u>\$ 1,584,633</u>	<u>\$ 10,780,102</u>	<u>\$ 10,752,174</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 YEAR ENDED JUNE 30, 2016

(with summarized comparative financial information for the year ended June 30, 2015)

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in unrestricted net assets	\$ 64,990	\$ 473,792
Adjustments to reconcile changes in unrestricted net assets to net cash (used in) provided by operating activities:		
Depreciation and amortization	364,587	465,365
Changes in assets and liabilities:		
Decrease (Increase) in grants and contracts receivable	107,596	(49,939)
(Increase) Decrease in prepaid expenses	(51,310)	79,616
Increase in accounts payable and accrued expenses	142,445	136,067
Increase (Decrease) in accrued payroll and payroll taxes	41,757	(6,809)
(Decrease) in refundable advances	(26,478)	(13,616)
(Decrease) Increase in due to related parties	(1,132,462)	604,504
(Decrease) in deferred rent	(27,354)	(13,160)
NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES	(516,229)	1,675,820
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(320,306)	(36,405)
(Increase) in restricted cash	(76)	(101)
NET CASH (USED IN) INVESTING ACTIVITIES	(320,382)	(36,506)
CASH FLOWS FROM FINANCING ACTIVITY:		
Payments made on capital lease obligation	(30,558)	(24,249)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(867,169)	1,615,065
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	5,632,800	4,017,735
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 4,765,631	\$ 5,632,800
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid during the year for interest	\$ 3,506	\$ 3,979
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES:		
Computers and equipment acquired under a capital lease	\$ 9,290	\$ 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, 2016
(with comparative financial information for June 30, 2015)

NOTE 1 - ORGANIZATION 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 2016, the Board of Regents extended the charter through July 31, 2021. 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 683 students in kindergarten through eighth grade during the 2015-2016 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, 2016 and 2015.

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, 2012 and prior.

HARLEM PREP CHARTER SCHOOL
(A Not-For-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016
(with comparative financial information for June 30, 2015)

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

Basis of Presentation

The School's financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. 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.

The Board of Trustees has designated \$320,543 for the Dream Dollar Scholarship Fund which is a college scholarship fund for students who graduate from 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 statements of activities, 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, 2016 and 2015.

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, 2016
(with comparative financial information for June 30, 2015)

NOTE 1 - ORGANIZATION 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

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. At June 30, 2016, account balances exceeded insured levels by approximately \$4,266,000. 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

HARLEM PREP CHARTER SCHOOL
(A Not-For-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016
(with comparative financial information for June 30, 2015)

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

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.

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 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 statements of functional expenses. Accordingly, such information should be read in conjunction with the School's 2015 financial statements from which the summarized information was derived.

Reclassifications

Certain 2015 accounts have been reclassified to conform to the 2016 financial statement presentation. The reclassifications have no effect on 2015 total assets, liabilities, net assets, and changes in net assets.

NOTE 2 - GRANTS AND CONTRACTS RECEIVABLE

Grants and contracts receivable consists 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,:

	2016	2015
Computers and equipment	\$ 1,115,552	\$ 892,647
Furniture and fixtures	278,993	244,767
Leasehold improvements	6,117,200	6,044,735
	7,511,745	7,182,149
Less: Accumulated depreciation and amortization	5,645,617	5,281,030
	\$ 1,866,128	\$ 1,901,119

Depreciation and amortization expense was \$364,587 and \$465,365 for the years ended June 30, 2016 and 2015, respectively.

HARLEM PREP CHARTER SCHOOL
(A Not-For-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016
(with comparative financial information for June 30, 2015)

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, 2016 and 2015, DPPS charged an annual management fee to the School of 13.5% and 14%, respectively. For the years ended June 30, 2016 and 2015, the School incurred \$1,429,493 and \$1,483,706 in management fees, respectively.

The School was 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. This agreement was terminated on July 1, 2015. For the years ended June 30, 2016 and 2015, the School incurred \$-0- and \$100,759 in consulting fees, respectively.

HARLEM PREP CHARTER SCHOOL
(A Not-For-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016
(with comparative financial information for June 30, 2015)

NOTE 4 - RELATED PARTY TRANSACTIONS (Continued)

For operational efficiency and purchasing power, the School shares expenses with the related charter schools and charter management organization. The net balance due from (to) related parties consisted of the following at June 30,:

	2016	2015
DPCS	\$ (32,710)	\$ (124,213)
DPH	(1,668)	(725,823)
DPE	-	(353,336)
BPCS	-	(6,094)
DPSS	(124,723)	(81,521)
DBI	-	(13)
DPCH	-	(563)
Net balance due (to) related parties	\$ (159,101)	\$ (1,291,563)

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, 2017	\$ 244,590
2018	244,590
2019	244,590
2020	244,590
2021	244,590
	\$ 1,222,950

Rent expense under both leases was \$393,371 and \$393,026 for the years ended June 30, 2016 and 2015, respectively.

HARLEM PREP CHARTER SCHOOL
(A Not-For-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016
(with comparative financial information for June 30, 2015)

NOTE 5 - COMMITMENTS (Continued)

Leased Equipment

The School leases office equipment under non-cancelable lease agreements expiring on various dates through October 2018.

The future minimum lease payments are as follows:

For the year ending June 30, 2017		\$ 104,398
	2018	64,829
	2019	<u>5,973</u>
		<u>\$ 175,200</u>

Equipment rental expense was \$146,920 and \$154,164 for the years ended June 30, 2016 and 2015, respectively.

NOTE 6 - CAPITAL LEASE OBLIGATION

The School leases computers and equipment under a capital lease that expire in July 2018. 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.

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

Computers and equipment		\$ 93,769
Less: accumulated depreciation		<u>(54,465)</u>
		<u>\$ 39,304</u>

The future minimum lease payments are as follows:

For the year ending June 30, 2016		\$ 34,360
	2017	6,131
	2018	<u>297</u>
Total minimum lease payments		40,788
Less: amounts representing interest		<u>(1,825)</u>
Present value of minimum lease payments		<u>38,963</u>
Less: current portion		<u>(32,750)</u>
Capital lease obligation, less current portion		<u>\$ 6,213</u>

HARLEM PREP CHARTER SCHOOL
(A Not-For-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016
(with comparative financial information for June 30, 2015)

NOTE 7 - 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 8 - DONATED SERVICES

Donated services are recognized as contributions in accordance with FASB ASC 958-605, "Accounts for Contributions Received and Contributions Made," if the services (a) create or enhance non-financial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the School, and (c) are measurable.

Two entities provided legal services to the School at no charge. The value of these services meets the criteria for recognition in the financial statements and was recorded at fair value of \$16,098 and \$-0- for the years ended June 30, 2016 and 2015, respectively.

NOTE 9 - 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 10 - 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 11 - 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 annual compensation. The amount charged for matching contributions to this plan was \$177,583 and \$105,514 for the years ended June 30, 2016 and 2015, respectively.

HARLEM PREP CHARTER SCHOOL
(A Not-For-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016
(with comparative financial information for June 30, 2015)

NOTE 12 - SUBSEQUENT EVENTS

The School has evaluated its subsequent events through October 31, 2016, the date that the accompanying financial statements were available to be issued. The School has no material events requiring disclosure.

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

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, 2016, 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 31, 2016.

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 31, 2016.

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 31, 2016