

**East Harlem Scholars Academy Charter School**

Financial Statements and  
Uniform Guidance Schedules  
Together With Independent Auditors' Reports

June 30, 2018 and 2017

**East Harlem Scholars Academy Charter School**

Financial Statements and  
Uniform Guidance Schedules  
Together With Independent Auditors' Reports

June 30, 2018 and 2017

<b>TABLE OF CONTENTS</b>	<b>Page</b>
Independent Auditors' Report	
<b>FINANCIAL STATEMENTS</b>	
Statements of Financial Position	3
Statements of Activities	4
Statements of Functional Expenses	5
Statements of Cash Flows	6
Notes to Financial Statements	7-14
<b>SUPPLEMENTARY INFORMATION</b>	
Schedule of Financial Position by School	15
Schedule of Activities by School	16
Schedule of Functional Expenses – East Harlem Scholars Academy School	17
Schedule of Functional Expenses – East Harlem Scholars Academy School II	18
Schedule of Cash Flows by School	19
<b>UNIFORM GUIDANCE REPORTS AND SCHEDULES</b>	
Schedule of Expenditures of Federal Awards	20
Notes to Schedule of Expenditures of Federal Awards	21
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>	
Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance	
Schedule of Findings and Questioned Costs	26

## Independent Auditors' Report

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

### **Report on the Financial Statements**

We have audited the accompanying financial statements of East Harlem Scholars Academy Charter School (the "School") which comprise the statements of financial position as of June 30, 2018 and 2017 and the related statements of activities, functional expenses and cash flows for the years 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of East Harlem Scholars Academy Charter School as of June 30, 2018 and 2017 and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

***Report on Summarized Comparative Statements***

We have previously audited the School's June 30, 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 23, 2017. In our opinion, the summarized comparative statement of functional expenses presented herein for the year ended June 30, 2017 is consistent, in all material respects, with the audited financial statements from which it has been derived.

***Other Matters***

***Report on Supplementary Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedules of financial position, activities, functional expenses and cash flows by school as of and for the year ended June 30, 2018 on pages 15-19 are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying schedule of expenditures of federal awards on page 20 as required by Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards ("Uniform Guidance"), 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 5, 2018 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 solely 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 the effectiveness of the School's 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.

*PKF O'Connor Davies, LLP*

October 5, 2018

## East Harlem Scholars Academy Charter School

### Statements of Financial Position

	June 30,	
	<u>2018</u>	<u>2017</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 1,050,059	\$ 326,000
Grants and accounts receivable	1,606,634	2,032,578
Prepaid expenses	173,172	10,510
Restricted cash	150,058	75,000
Property and equipment, net	<u>722,177</u>	<u>740,779</u>
	<u>\$ 3,702,100</u>	<u>\$ 3,184,867</u>
<b>LIABILITIES AND NET ASSETS</b>		
Liabilities		
Accounts payable and accrued expenses	\$ 1,039,402	\$ 922,456
Due to East Harlem Tutorial Program	1,033,590	1,492,151
Due to East Harlem Center, LLC	239,739	133,914
Deferred rent	506,758	304,390
Deferred revenue	<u>6,537</u>	<u>-</u>
Total Liabilities	2,826,026	2,852,911
Net assets, unrestricted	<u>876,074</u>	<u>331,956</u>
	<u>\$ 3,702,100</u>	<u>\$ 3,184,867</u>

See notes to financial statements

## East Harlem Scholars Academy Charter School

### Statements of Activities

	Year Ended June 30,	
	2018	2017
<b>REVENUE AND SUPPORT</b>		
Public School District		
State and local per pupil operating revenue	\$ 14,916,398	\$ 11,606,387
Lease assistance	1,214,603	522,562
Government grants and contracts	2,440,399	1,755,408
Contributions	1,783,955	2,087,592
Other income	<u>15,058</u>	<u>13,263</u>
Total Revenue and Support	<u>20,370,413</u>	<u>15,985,212</u>
<b>EXPENSES</b>		
Program services	17,682,716	14,979,472
Management and general	1,616,321	1,311,770
Fundraising	<u>527,258</u>	<u>500,897</u>
Total Expenses	<u>19,826,295</u>	<u>16,792,139</u>
Change in Net Assets	544,118	(806,927)
<b>NET ASSETS (UNRESTRICTED)</b>		
Beginning of year	<u>331,956</u>	<u>1,138,883</u>
End of year	<u>\$ 876,074</u>	<u>\$ 331,956</u>

See notes to financial statements

## East Harlem Scholars Academy Charter School

### Statement of Functional Expenses Year Ended June 30, 2018 (with summarized totals for the year ended June 30, 2017)

	No. of Positions	2018							2017	
		Program Services					Management and General	Fundraising	Total	Total
		General Education	Special Education	Pre-K	Supplemental Education	Total Program Services				
Personnel Services Costs										
Administrative staff personnel	31	\$ 1,621,119	\$ 481,340	\$ 93,096	\$ -	\$ 2,195,555	\$ 471,731	\$ -	\$ 2,667,286	\$ 2,288,021
Instructional personnel	105	5,717,712	1,769,804	394,960	-	7,882,476	-	-	7,882,476	6,718,743
Non-instructional personnel	1	-	-	-	-	-	4,059	-	4,059	2,309
Total Salaries and Staff	137	7,338,831	2,251,144	488,056	-	10,078,031	475,790	-	10,553,821	9,009,073
Fringe benefits and payroll taxes		1,112,575	342,823	73,575	-	1,528,973	72,019	-	1,600,992	1,550,543
Retirement		90,957	28,432	5,906	-	125,295	5,859	-	131,154	87,049
Legal services		-	-	-	-	-	19,077	-	19,077	15,888
Accounting and audit services		-	-	-	-	-	115,740	-	115,740	36,398
Other professional and consulting services		230,912	120,971	17,729	-	369,612	798,962	527,140	1,695,714	1,516,292
Building and and land rent/lease		980,022	395,946	39,623	-	1,415,591	56,676	-	1,472,267	1,226,890
Repairs and maintenance		596,040	236,568	26,003	-	858,611	34,844	-	893,455	410,970
Insurance		27,476	6,718	2,073	-	36,267	1,703	-	37,970	72,295
Utilities		126,959	51,294	5,133	-	183,386	7,342	-	190,728	149,738
Supplies and materials		183,274	70,328	6,835	-	260,437	-	-	260,437	362,670
Equipment and furnishings		87,711	25,392	-	-	113,103	-	-	113,103	111,938
Staff development		180,363	53,781	1,309	-	235,453	1,914	-	237,367	220,727
Marketing and recruitment		222,301	64,026	-	-	286,327	-	-	286,327	85,460
Technology		279,020	84,339	14,864	-	378,223	14,348	-	392,571	347,191
Food service		637,767	188,208	-	-	825,975	-	-	825,975	706,311
Student services		213,933	65,448	-	214,802	494,183	-	-	494,183	414,270
Office expenses		142,549	42,360	1,205	-	186,114	-	-	186,114	199,168
Depreciation and amortization		192,385	68,425	10,272	-	271,082	11,795	-	282,877	231,577
Dues and Memberships		28,169	7,884	-	-	36,053	-	-	36,053	21,242
Other expenses		-	-	-	-	-	252	118	370	16,449
Total Expenses		<u>\$ 12,671,244</u>	<u>\$ 4,104,087</u>	<u>\$ 692,583</u>	<u>\$ 214,802</u>	<u>\$ 17,682,716</u>	<u>\$ 1,616,321</u>	<u>\$ 527,258</u>	<u>\$ 19,826,295</u>	<u>\$ 16,792,139</u>

See notes to financial statements

## East Harlem Scholars Academy Charter School

### Statements of Cash Flows

	Year Ended June 30,	
	2018	2017
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 544,118	\$ (806,927)
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation and amortization	282,877	231,577
Deferred rent	202,368	304,390
Changes in operating assets and liabilities		
Grants and accounts receivable	425,944	(1,142,829)
Prepaid expenses	(162,662)	283,546
Accounts payable and accrued expenses	116,946	204,831
Due to East Harlem Tutorial Program	(458,561)	931,299
Due to East Harlem Center, LLC	105,825	133,914
Deferred revenue	6,537	-
Net Cash from Operating Activities	1,063,392	139,801
 <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of property and equipment	(264,275)	(834,725)
Restricted cash	(75,058)	(25,000)
Net Cash from Investing Activities	(339,333)	(859,725)
 Net Change in Cash and Cash Equivalents	724,059	(719,924)
 <b>CASH AND CASH EQUIVALENTS</b>		
Beginning of year	326,000	1,045,924
End of year	\$ 1,050,059	\$ 326,000

See notes to financial statements



# East Harlem Scholars Academy Charter School

Notes to Financial Statements

June 30, 2018 and 2017

## 1. Organization and Tax Status

### *The Corporation*

Founded upon the 53-year legacy of East Harlem Tutorial Program (“EHTP”), East Harlem Scholars Academy Charter School is a not-for-profit education corporation (the “Corporation”) originally formed by the Board of Regents of the University of the State of New York (the “Board of Regents”) on December 14, 2010 by the granting of a Provisional Charter (the education corporation-equivalent of a certificate of incorporation) to operate one (1) (and as of January 1, 2013 two (2)) public charter schools. The Board of Regents has since issued two renewals to the Corporation’s charter. The Corporation’s charter expires on December 31, 2020. The mission of the schools is to prepare students with the academic skills, strength of character and social and emotional well-being to excel in high school and college, to lead in their communities, and to realize their best possible selves.

### *The Schools*

East Harlem Scholars Academy Charter School (“Scholars”) - also the name of the first school for which the Corporation received a charter to operate – is situated in East Harlem in the borough of Manhattan, New York City. Scholars opened in the fall of 2011 with kindergarten and first grade and added a grade each year so that in fiscal 2018 it served pre-k through seventh grade. In 2016 Scholars received a full five year term renewal which authorizes the school to add a grade each year until it serves kindergarten through eighth grade. In fiscal 2017 Scholars added one section of Universal Pre-Kindergarten (pre-k). In summer of FY2018, Scholars received permission to add high school grades 9<sup>th</sup> – 12<sup>th</sup>. Scholars proposes to begin the 9<sup>th</sup> grade instruction with the 2019-20 school year.

East Harlem Scholars Academy Charter School II (“Scholars II”) is the second public charter school for which the Corporation received a charter to operate. It opened in the fall of 2013 with kindergarten and first grades and will expand each year until it serves students through fifth grade. In winter of FY 2018, Scholars II received a full five year term renewal which authorizes the school to add a grade each year until it serves kindergarten through eighth grade. In fiscal 2016 Scholars II added two sections of Universal Pre-Kindergarten (pre-k). In fiscal 2018 it served students in pre-k through fifth grade.

Scholars and Scholars II are referred to collectively as the “School.”

The School is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code.

The School’s primary sources of income are from per pupil and other government funding.

## **East Harlem Scholars Academy Charter School**

Notes to Financial Statements  
June 30, 2018 and 2017

### **2. Summary of Significant Accounting Policies**

#### ***Basis of Presentation and Use of Estimates***

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"), which requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingencies, if any, at the date of the financial statements, and the reported amounts of support and revenue and expenses during the reporting period. Actual results could differ from those estimates.

The net assets of the School and changes therein are classified as unrestricted, temporarily restricted or permanently restricted based on the existence or absence of donor-imposed restrictions. Unrestricted net assets are those that are not subject to donor-imposed stipulations. Temporarily restricted net assets represent contributions with donor-imposed restrictions that have not yet been satisfied or are time restricted. When a stipulated time restriction ends or a purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restriction. Permanently restricted net assets are those which are established by donor gifts to provide a permanent endowment. There were no temporarily or permanently restricted net assets at June 30, 2018 and 2017.

#### ***Cash and Cash Equivalents***

For purposes of the statement of cash flows, the School considers all highly liquid investments, with a maturity of three months or less at the time of purchase to be cash equivalents. Restricted cash is a reserve fund of \$75,000 for each school to cover debts in the event of the School's dissolution.

#### ***Contributions and Unconditional Promises to Give***

Contributions are recognized as revenue when an unconditional promise to give is made and the gift is subject to reasonable valuation. Contributions received and unconditional promises to give are classified as unrestricted, temporarily restricted, or permanently restricted support. If donor restrictions are met within the same reporting period as when the contribution was made, those contributions are recorded as unrestricted support.

#### ***Property and Equipment***

Property and equipment is recorded at cost. Additions and improvements or betterments in excess of \$5,000 with an estimated useful life of more than one year are capitalized. Depreciation is computed using the straight-line method over the estimated useful lives of the assets ranging from 2 to 5 years. Leasehold improvements are amortized over the shorter of the estimated useful life of the asset or term of the related lease. Property and equipment acquired with certain government contract funds are recorded as expenses when the government retains title to such assets.

## East Harlem Scholars Academy Charter School

Notes to Financial Statements  
June 30, 2018 and 2017

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

#### ***Property and Equipment (continued)***

The School reviews long-lived assets to determine whether there has been any permanent impairment whenever events or circumstances indicate the carrying amount of an asset may not be recoverable. If the sum of the expected future undiscounted cash flows is less than the carrying amount of the assets, the School recognizes an impairment loss. No impairment losses were recognized at June 30, 2018 and 2017.

#### ***Revenue Recognition***

Revenue from the state and local governments under the charter agreement is based on the number of students enrolled, and recorded when services are performed in accordance with the charter agreement.

Revenue from federal, state and local government grants and contracts is recognized by the School when qualifying expenditures are incurred. Funds received in advance for which qualifying expenditures have not been incurred are reflected as deferred revenues from state and local government grants in the accompanying statement of financial position.

The School follows U.S. GAAP guidance on Accounting for Contributions Received and Contributions Made. Accordingly, contributed assets are recorded at fair value at date of donation. Services are recognized as revenue and expenses at fair value if those services (a) create or enhance nonfinancial assets, or (b) require specialized skills and are provided by individuals with those skills and would typically need to be purchased by the School if they had not been provided by contribution.

A number of volunteers have made a contribution of their time to the School to develop its programs and to serve on the School's board of trustees. The value of such contributed time is not reflected in these financial statements because it does not meet the criteria for recognition.

#### ***Prior Year Summarized Financial Information***

The statement of functional expenses includes prior-year summarized comparative information in total but not by function. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. GAAP. Accordingly, such information should be read in conjunction with the School's financial statements as of and for the year ended June 30, 2017, from which the summarized financial information was derived.

## East Harlem Scholars Academy Charter School

Notes to Financial Statements

June 30, 2018 and 2017

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

#### ***Functional Expenses***

Expenses that can be directly identified with the program or supporting service to which they relate are charged accordingly. Other expenses by function have been allocated among program and supporting service classifications based upon benefits received. Expenses are classified according to the functional categories for which they are incurred, as follows:

General Education Program Services – represents expenses directly associated with general education.

Special Education Program Services – represents expenses directly associated with special education for certain students requiring additional attention and guidance.

Pre-K – represents expenses directly associated with Pre-K programs.

Supplemental Education Program Services – represents expenses directly associated with after-school and summer school programs.

Management and General – represents expenses related to the overall administration and operation of the School that are not associated with any education services or fundraising.

Fundraising – represents expenses related to efforts to raise additional funds for the School.

#### ***Marketing and Recruitment***

Marketing and recruitment costs are expensed as incurred for staff and student recruitment.

#### ***Accounting For Uncertainty in Income Taxes***

The School recognizes the effect of income tax positions only when they are more likely than not to be sustained. Management has determined that the School had no uncertain tax positions that would require financial statement recognition or disclosure. The School is no longer subject to examination by applicable taxing authorities for periods prior to 2015.

## East Harlem Scholars Academy Charter School

Notes to Financial Statements  
June 30, 2018 and 2017

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

#### ***Subsequent Events Evaluation by Management***

Management has evaluated subsequent events for disclosure and/or recognition in the financial statements through the date that the financial statements were available to be issued, which date is October 5, 2018.

### 3. Concentration of Credit Risk and Revenue

The School's financial instruments that are potentially exposed to concentration of credit risk consist of cash and cash equivalents. The School places its cash and cash equivalents with quality financial institutions in the United States. At times, cash balances may be in excess of Federal Deposit Insurance Corporation ("FDIC") insurance limits. The School routinely assesses the financial strength of its cash and cash equivalents. The School has not experienced any losses in such accounts and believes its cash balances are not exposed to any significant risk. At June 30, 2018 and 2017, approximately \$950,000 and \$150,000 was maintained with an institution in excess of FDIC limits.

The School receives a majority of its revenues from the New York State Education Department through the Charter Schools Institute of the State University of New York (the "Institute"). The Institute provides general operating support to the School based upon the location and the number of students enrolled. Support from per pupil general education and special education and lease assistance provided to the School totaled \$16,131,001 and \$12,128,949 for the years ended June 30, 2018 and 2017. The School is dependent upon this level of funding in order to continue its operations.

### 4. Grants and Accounts Receivable

At June 30, 2018 and 2017, grants and accounts receivable are deemed to be fully collectible by management. Management has assessed the need for an allowance and has determined that such an allowance is not necessary.

### 5. Property and Equipment

Property and equipment consist of the following at June 30:

	<u>2018</u>	<u>2017</u>
Computers and other equipment	\$ 799,225	\$ 609,266
Furniture and fixtures	778,534	704,218
Leasehold improvements	<u>64,562</u>	<u>64,562</u>
	1,642,321	1,378,046
Accumulated depreciation	<u>(920,144)</u>	<u>(637,267)</u>
	<u>\$ 722,177</u>	<u>\$ 740,779</u>

## East Harlem Scholars Academy Charter School

Notes to Financial Statements  
June 30, 2018 and 2017

### 6. Related Party Transactions

The School's bylaws stipulate that at least 51% and no more than 60% of its Trustees may also be members of the board of EHTP thus resulting in common control. Under a cost sharing agreement with EHTP, approved by a supermajority of the board, EHTP provides the School with administrative support. Shared operating costs are allocated to the School based on employee hours spent. The total amount of the cost sharing agreement for the years ended 2018 and 2017 was \$1,149,613 and \$999,323.

In addition, EHTP pays certain expenses on behalf of the School which are subsequently reimbursed. The total amount of these reimbursed expenses for the years ended June 30, 2018 and 2017 was \$1,149,672 and \$1,402,816. The balance due from the School to EHTP related to both the cost sharing and reimbursable expenses as of June 30, 2018 and 2017 totaled \$1,033,590 and \$1,492,151.

During the year ended June 30, 2017, East Harlem Center, LLC ("EHC"), a wholly owned subsidiary of EHTP, paid for utility costs on behalf of the School. The balance due from the School to EHC at June 30, 2018 and 2017 totaled \$239,739 and \$133,914.

For the years ended June 30, 2018 and 2017, grants from affiliates amounted to \$1,240,000 and \$1,767,095. At June 30, 2018 and 2017, grants receivable from EHTP amounted to \$240,000 and \$1,159,681.

The accompanying financial statements reflect only the activities and net assets of the School. Management has applied U.S. GAAP standards in assessing the need to consolidate the financial statements of the School with those of EHTP and EHC. Under these standards, consolidation should occur if both an economic interest in the School and control by a majority of common board members exist. Management has determined that EHTP and EHC have no economic interest in the School and consolidation is precluded.

### 7. Agreement with School Facility

Scholars had an agreement through the school year 2015-2016 with the New York City Department of Education for space at the Jackie Robinson Educational Complex (the "Complex"), a New York City public school located at 1573 Madison Avenue, New York, New York. Beginning September 1, 2016, Scholars occupies a facility located at 2040-2050 Second Avenue, New York, NY (see Note 10). Scholars II has an agreement to be permanently co-located at the Complex. The fair value of the rent has not been included in the accompanying financial statements. The School will be responsible for any overtime-related costs for services provided beyond the regular operating hours. For the years ended June 30, 2018 and 2017, the School did not incur any overtime related costs.

## East Harlem Scholars Academy Charter School

Notes to Financial Statements  
June 30, 2018 and 2017

### 8. Contingencies

The School is exposed to various risks of loss related to torts; thefts of, damage to, and destruction of assets; injuries to employees; and natural disasters. The School maintains commercial insurance to protect itself from such risks and is self-insured for other risks.

The School entered into contractual relationships with certain governmental funding sources. The governmental agencies may request return of funds as a result of noncompliance by the School, as well as additional funds for the use of facilities. The accompanying financial statements make no provision for the possible disallowance or refund, because management does not believe that there are any liabilities to be recorded.

### 9. Employee Benefit Plan

The School maintains a deferred compensation plan for all qualified employees. The School elects to make contributions to the plan on a discretionary basis. The School contributed \$133,364 and \$87,049 to the plan for the years ended June 30, 2018 and 2017.

### 10. Commitments

During the fiscal year ended June 30, 2015, an agreement to lease the land and buildings located at 2040-2050 Second Avenue, New York, NY, was executed between Scholars and EHC. In connection with this agreement, at June 30, 2016, the School made a contribution to EHC toward the cost of the new building in the amount of \$200,000 to be amortized over the life of the lease. The lease has a term of 30 years commencing on September 1, 2016. Future minimum rental payments to be paid under this lease are as follows:

2019	\$ 1,416,600
2020	1,416,600
2021	1,416,600
2022	1,416,600
2023	1,416,600
Thereafter	<u>34,892,668</u>
	<u>\$ 41,975,668</u>

Rent expense under this lease for the years ended June 30, 2018 and 2017 was \$1,472,267 and \$1,226,890.

## East Harlem Scholars Academy Charter School

Notes to Financial Statements  
June 30, 2018 and 2017

### 10. Commitments *(continued)*

In addition, Scholars entered into an agreement with EHTP to sublease a portion of its space located at 2040-2050 Second Avenue, New York, NY. The lease has a term of 30 years commencing on September 1, 2016. Future minimum rental payments to be received under this lease are as follows:

2019	\$	21,900
2020		24,600
2021		24,600
2022		24,600
2023		24,600
Thereafter		<u>607,368</u>
	\$	<u><u>727,668</u></u>

Rental income under this sublease for the years ended June 30, 2018 and 2017 was \$15,000.

\* \* \* \* \*



**East Harlem Scholars Academy Charter School**

Supplementary Information

June 30, 2018

## East Harlem Scholars Academy Charter School

### Schedule of Financial Position by School June 30, 2018

	East Harlem Scholars Academy Charter School	East Harlem Scholars Academy Charter School II	Eliminating Entry	Total
<b>ASSETS</b>				
Cash and cash equivalents	\$ 539,641	\$ 510,418	\$ -	\$ 1,050,059
Grants and accounts receivable	1,136,334	470,300	-	1,606,634
Prepaid expenses	167,252	5,920	-	173,172
Due from East Harlem Scholars Academy Charter School II	461,092	-	(461,092)	-
Restricted cash	75,029	75,029	-	150,058
Property and equipment, net	<u>537,882</u>	<u>184,295</u>	<u>-</u>	<u>722,177</u>
	<u>\$ 2,917,230</u>	<u>\$ 1,245,962</u>	<u>\$ (461,092)</u>	<u>\$ 3,702,100</u>
<b>LIABILITIES AND NET ASSETS</b>				
Liabilities				
Accounts payable and accrued expenses	\$ 661,229	\$ 378,173	\$ -	\$ 1,039,402
Due to East Harlem Tutorial Program	626,176	407,414	-	1,033,590
Due to East Harlem Scholars Academy Charter School	-	461,092	(461,092)	-
Due to East Harlem Center, LLC	239,739	-	-	239,739
Deferred rent	506,758	-	-	506,758
Deferred revenue	<u>6,537</u>	<u>-</u>	<u>-</u>	<u>6,537</u>
Total Liabilities	2,040,439	1,246,679	(461,092)	2,826,026
Net assets, unrestricted	<u>876,791</u>	<u>(717)</u>	<u>-</u>	<u>876,074</u>
	<u>\$ 2,917,230</u>	<u>\$ 1,245,962</u>	<u>\$ (461,092)</u>	<u>\$ 3,702,100</u>

See independent auditors' report

## East Harlem Scholars Academy Charter School

### Schedule of Activities by School Year Ended June 30, 2018

	East Harlem Scholars Academy Charter School	East Harlem Scholars Academy Charter School II	Total
<b>REVENUE AND SUPPORT</b>			
Public School District			
State and local per pupil operating revenue	\$ 9,231,733	\$ 5,684,665	\$ 14,916,398
Lease assistance	1,214,603	-	1,214,603
Government grants and contracts	1,187,419	1,252,980	2,440,399
Contributions	1,667,578	116,377	1,783,955
Other income	15,029	29	15,058
Total Revenue and Support	13,316,362	7,054,051	20,370,413
<b>EXPENSES</b>			
Program services	11,491,059	6,191,657	17,682,716
Management and general	935,382	680,939	1,616,321
Fundraising	315,097	212,161	527,258
Total Expenses	12,741,538	7,084,757	19,826,295
Change in Net Assets	574,824	(30,706)	544,118
<b>NET ASSETS (UNRESTRICTED)</b>			
Beginning of year	301,967	29,989	331,956
End of year	\$ 876,791	\$ (717)	\$ 876,074

See independent auditors' report

## East Harlem Scholars Academy Charter School

### Schedule of Functional Expenses East Harlem Scholars Academy School Year Ended June 30, 2018

	No. of Positions	Program Services				Total Program Services	Management and General	Fundraising	Total
		General Education	Special Education	Pre-K	Supplemental Education				
Personnel Services Costs									
Administrative staff personnel	18	\$ 927,098	\$ 321,577	\$ 66,197	\$ -	\$ 1,314,872	\$ 233,693	\$ -	\$ 1,548,565
Instructional personnel	62	3,183,999	1,339,380	100,017	-	4,623,396	-	-	4,623,396
Non-instructional personnel	1	-	-	-	-	-	4,059	-	4,059
Total Salaries and Staff	81	4,111,097	1,660,957	166,214	-	5,938,268	237,752	-	6,176,020
Fringe benefits and payroll taxes		630,243	254,629	25,481	-	910,353	36,448	-	946,801
Retirement		53,354	21,556	2,157	-	77,067	3,086	-	80,153
Legal services		-	-	-	-	-	14,026	-	14,026
Accounting and audit services		-	-	-	-	-	56,874	-	56,874
Other professional and consulting services		125,413	77,432	7,153	-	209,998	473,118	315,097	998,213
Building and land rent/lease		980,022	395,946	39,623	-	1,415,591	56,676	-	1,472,267
Repairs and maintenance		576,803	233,050	24,085	-	833,938	33,663	-	867,601
Insurance		7,813	3,059	247	-	11,119	353	-	11,472
Utilities		126,959	51,294	5,133	-	183,386	7,342	-	190,728
Supplies and materials		130,664	58,217	1,163	-	190,044	-	-	190,044
Equipment and furnishings		44,572	15,461	-	-	60,033	-	-	60,033
Staff development		105,100	36,456	559	-	142,115	-	-	142,115
Marketing and recruitment		110,171	38,214	-	-	148,385	-	-	148,385
Technology		152,127	59,783	4,963	-	216,873	7,098	-	223,971
Food service		354,823	123,075	-	-	477,898	-	-	477,898
Student services		138,866	48,168	-	145,447	332,481	-	-	332,481
Office expenses		81,822	28,381	-	-	110,203	-	-	110,203
Depreciation and amortization		150,328	60,735	6,078	-	217,141	8,694	-	225,835
Dues and Memberships		12,003	4,163	-	-	16,166	-	-	16,166
Other expenses		-	-	-	-	-	252	-	252
<b>Total Expenses East Harlem Scholars Academy Charter School</b>		<b>\$ 7,892,180</b>	<b>\$ 3,170,576</b>	<b>\$ 282,856</b>	<b>\$ 145,447</b>	<b>\$ 11,491,059</b>	<b>\$ 935,382</b>	<b>\$ 315,097</b>	<b>\$ 12,741,538</b>

See independent auditors' report

## East Harlem Scholars Academy Charter School

### Schedule of Functional Expenses East Harlem Scholars Academy School II Year Ended June 30, 2018

	No. of Positions	Program Services				Total Program Services	Management and General	Fundraising	Total
		General Education	Special Education	Pre-K	Supplemental Education				
Personnel Services Costs									
Administrative staff personnel	13	\$ 694,021	\$ 159,763	\$ 26,899	\$ -	\$ 880,683	\$ 238,038	\$ -	\$ 1,118,721
Instructional personnel	43	2,533,713	430,424	294,943	-	3,259,080	-	-	3,259,080
Total Salaries and Staff	56	3,227,734	590,187	321,842	-	4,139,763	238,038	-	4,377,801
Fringe benefits and payroll taxes		482,332	88,194	48,094	-	618,620	35,571	-	654,191
Retirement		37,603	6,876	3,749	-	48,228	2,773	-	51,001
Legal services		-	-	-	-	-	5,051	-	5,051
Accounting and audit services		-	-	-	-	-	58,866	-	58,866
Other professional and consulting services		105,499	43,539	10,576	-	159,614	325,844	212,043	697,501
Repairs and maintenance		19,237	3,518	1,918	-	24,673	1,181	-	25,854
Insurance		19,663	3,659	1,826	-	25,148	1,350	-	26,498
Supplies and materials		52,610	12,111	5,672	-	70,393	-	-	70,393
Equipment and furnishings		43,139	9,931	-	-	53,070	-	-	53,070
Staff development		75,263	17,325	750	-	93,338	1,914	-	95,252
Marketing and recruitment		112,130	25,812	-	-	137,942	-	-	137,942
Technology		126,893	24,556	9,901	-	161,350	7,250	-	168,600
Food service		282,944	65,133	-	-	348,077	-	-	348,077
Student services		75,067	17,280	-	69,355	161,702	-	-	161,702
Office expenses		60,727	13,979	1,205	-	75,911	-	-	75,911
Depreciation and amortization		42,057	7,690	4,194	-	53,941	3,101	-	57,042
Dues and Memberships		16,166	3,721	-	-	19,887	-	-	19,887
Other expenses		-	-	-	-	-	-	118	118
<b>Total Expenses East Harlem Scholars Academy Charter School II</b>		<b>\$ 4,779,064</b>	<b>\$ 933,511</b>	<b>\$ 409,727</b>	<b>\$ 69,355</b>	<b>\$ 6,191,657</b>	<b>\$ 680,939</b>	<b>\$ 212,161</b>	<b>\$ 7,084,757</b>
<b>Total Expenses East Harlem Scholars Academy Charter School</b>		<b>7,892,180</b>	<b>3,170,576</b>	<b>282,856</b>	<b>145,447</b>	<b>11,491,059</b>	<b>935,382</b>	<b>315,097</b>	<b>12,741,538</b>
<b>Total Expenses</b>		<b>\$ 12,671,244</b>	<b>\$ 4,104,087</b>	<b>\$ 692,583</b>	<b>\$ 214,802</b>	<b>\$ 17,682,716</b>	<b>\$ 1,616,321</b>	<b>\$ 527,258</b>	<b>\$ 19,826,295</b>

See independent auditors' report

## East Harlem Scholars Academy Charter School

### Schedule of Cash Flows by School Year Ended June 30, 2018

	<u>East Harlem Scholars Academy Charter School</u>	<u>East Harlem Scholars Academy Charter School II</u>	<u>Total</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Changes in net assets	\$ 574,824	\$ (30,706)	\$ 544,118
Adjustments to reconcile change in net assets to net cash from operating activities			
Depreciation and amortization	225,835	57,042	282,877
Deferred rent	202,368	-	202,368
Changes in operating assets and liabilities			
Grants and accounts receivable	110,469	315,475	425,944
Prepaid expenses	(161,269)	(1,393)	(162,662)
Accounts payable and accrued expenses	65,127	51,819	116,946
Due (to)/from East Harlem Scholars Academy Charter School	-	379,618	379,618
Due to East Harlem Tutorial Program	(136,869)	(321,692)	(458,561)
Due to East Harlem Center, LLC	105,825	-	105,825
Due (to)/from East Harlem Scholars Academy Charter School II	(379,618)	-	(379,618)
Deferred revenue	6,537	-	6,537
Net Cash from Operating Activities	<u>613,229</u>	<u>450,163</u>	<u>1,063,392</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchases of property and equipment	(92,327)	(171,948)	(264,275)
Restricted cash	<u>(29)</u>	<u>(75,029)</u>	<u>(75,058)</u>
Net Cash from Investing Activities	<u>(92,356)</u>	<u>(246,977)</u>	<u>(339,333)</u>
 Net Change in Cash and Cash Equivalents	 520,873	 203,186	 724,059
<b>CASH AND CASH EQUIVALENTS</b>			
Beginning of period	<u>18,768</u>	<u>307,232</u>	<u>326,000</u>
End of period	<u>\$ 539,641</u>	<u>\$ 510,418</u>	<u>\$ 1,050,059</u>

See independent auditors' report

**East Harlem Scholars Academy Charter School**

Uniform Guidance Schedules and Reports

June 30, 2018

**East Harlem Scholars Academy Charter School**

Schedule of Expenditures of Federal Awards  
Year Ended June 30, 2018

<u>Federal Grantor/Pass-through Grantor Program or Cluster Title</u>		<u>Pass-through Entity Identifying Number</u>	<u>Federal CFDA Number</u>	<u>Passed through to Subrecipients</u>	<u>Total Federal Expenditures</u>
<u>U.S. Department of Education</u>					
Pass-through New York State					
Education Department:					
Title I Grants to Local Educational Agencies (LEAs)	EHS	0021174840	84.010	\$ -	\$ (18,718)
Title I Grants to Local Educational Agencies (LEAs)	EHS	0021184840	84.010	-	279,173
Title I Grants to Local Educational Agencies (LEAs)	EHS 2	0021184980	84.010	-	179,138
Supporting Effective Instruction State Grants (formerly Improving Teacher Quality State Grants)	EHS	0147184840	84.367	-	57,811
Supporting Effective Instruction State Grants (formerly Improving Teacher Quality State Grants)	EHS 2	0147184980	84.367	-	50,739
Total Pass-through New York State Education Department				-	548,143
The Expansion and Replication of the East Harlem Scholars Academic Model		N/A	84.282M	-	221,877
Total U.S. Department of Education				-	770,020
<u>U.S. Department of Agriculture</u>					
Pass-through New York State Education Department					
Child Nutrition Cluster:					
School Breakfast Program (SBP) (Cluster)		310400860995	10.553	-	207,150
National School Lunch Program (NSLP) (Lunch) (Cluster)		310400860995	10.555	-	415,110
National School Lunch Program (NSLP) (Snack) (Cluster)		310400860995	10.555	-	122,714
Total Child Nutrition Cluster				-	744,974
Total Pass-through New York State Education Department				-	744,974
Total U.S. Department of Agriculture				-	744,974
<b>Total Expenditures of Federal Awards</b>				<b>\$ -</b>	<b>\$ 1,514,994</b>

See independent auditors' report and notes to schedule of expenditures of federal awards



## **East Harlem Scholars Academy Charter School**

Notes to Schedule of Expenditures of Federal Awards  
Year Ended June 30, 2018

### **1. Basis of Presentation**

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") includes the federal award activity of East Harlem Scholars Academy Charter School (the "School") under programs of the federal government for the year ended June 30, 2018. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the School, it is not intended to and does not present the financial position, changes in net assets or cash flows of the School.

### **2. Summary of Significant Accounting Policies**

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.

### **3. Indirect Cost Rate**

The School has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

**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**

**Independent Auditors' Report**

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of East Harlem Scholars Academy Charter School (the "School"), which comprise the statement of financial position as of June 30, 2018, 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 5, 2018.

**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.

### **Compliance and Other Matters**

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

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*PKF O'Connor Davies, LLP*

October 5, 2018

**Report on Compliance for Each Major Federal Program and Report on Internal Control  
Over Compliance Required by the Uniform Guidance**

**Independent Auditors' Report**

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

**Report on Compliance for Each Major Federal Program**

We have audited East Harlem Scholars Academy Charter School's (the "School") compliance with the types of compliance requirements described in the *OMB 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, 2018. The School's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

***Auditors' 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Those standards and the Uniform Guidance 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, East Harlem Scholars Academy Charter 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, 2018.

***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 the Uniform Guidance, 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

*PKF O'Connor Davies, LLP*

October 5, 2018

## East Harlem Scholars Academy

### Schedule of Findings and Questioned Costs Year Ended June 30, 2018

#### Section I - Summary of Auditors' Results

##### Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with U.S. GAAP: Unmodified  
Internal control over financial reporting:  
Material weakness(es) identified? \_\_\_\_\_ yes   X   no  
Significant deficiency(ies) identified? \_\_\_\_\_ yes   X   none reported  
Noncompliance material to financial statements noted? \_\_\_\_\_ yes   X   no

##### Federal Awards

Internal control over major federal programs:  
Material weakness(es) identified? \_\_\_\_\_ yes   X   no  
Significant deficiency(ies) identified? \_\_\_\_\_ yes   X   none reported  
Type of auditors' report issued on compliance for major federal programs: Unmodified  
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? \_\_\_\_\_ yes   X   no

Identification of major federal programs:

CFDA Numbers	Name of Federal Programs or Clusters
10.553	School Breakfast Program (Child Nutrition Cluster)
10.555	National School Lunch Program (Child Nutrition Cluster)

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000  
Auditee qualified as low-risk auditee? \_\_\_\_\_ yes   X   no

#### Section II – Financial Statement Findings

During our audit, we noted no material findings for the year ended June 30, 2018.

#### Section III – Federal Award Findings and Questioned Costs

During our audit, we noted no material instances of noncompliance and none of the costs reported in the federal financially assisted programs are questioned or recommended to be disallowed.

#### Section IV - Prior Year's Findings

There were no prior year audit findings.

October 22, 2018

PKF O'Connor Davies, LLP  
500 Mamaroneck Avenue, Suite 301  
Harrison, New York 10528

This representation letter is provided in connection with your audits of the financial statements of East Harlem Scholars Academy Charter School (the "Organization"), which comprise the statements of financial position as of June 30, 2018 and 2017, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements, for the purpose of expressing an opinion as to whether the financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America (US GAAP).

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement. An omission or misstatement that is monetarily small in amount could be considered material as a result of qualitative factors.

We confirm, to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves as of the date of this letter, the following representations made to you during your audits:

### **Our Responsibilities**

- We acknowledge that we have fulfilled our responsibilities for:
  - The preparation and fair presentation of the financial statements in accordance with US GAAP;
  - 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; and
  - The design, implementation, and maintenance of internal control to prevent and detect fraud.
- We understand that the term "fraud" refers to intentional acts by one or more individuals among management, those charged with governance, employees, or third parties, involving the use of deception that results in a misstatement in financial statements. Two types of intentional misstatements are relevant to your audit – misstatements resulting from fraudulent financial reporting and misstatements resulting from misappropriation of assets. Fraudulent financial reporting involves intentional misstatements, including omissions of amounts or disclosures in financial statements to deceive financial statement users. Misappropriation of assets involves the theft of an entity's assets.

- We are further responsible for reviewing, accepting and processing the standard, adjusting, or correcting journal entries that you proposed during the course of your engagement. We confirm that we designated a suitably qualified individual who understands the nature and impact of the proposed entries to the financial statements, and we accept responsibility for the proposed entries that we authorized and processed.
- We acknowledge our responsibility for presenting the Schedules of Financial Position by School, Schedules of Activities by School, Schedules of Functional Expenses by School, and Schedule of Cash Flows by School (“supplementary information”) in accordance with US GAAP, and we believe the supplementary information, including its form and content, is fairly presented in accordance with US GAAP. The methods of measurement and presentation of the supplementary information have not changed from those used in the prior period, and we have disclosed to you any significant assumptions or interpretations underlying the measurement and presentation of the supplementary information.

### **Financial Statements**

- The financial statements referred to above are fairly presented in conformity with US GAAP and include all disclosures necessary for such fair presentation. In that connection, we specifically confirm that:
  - The Organization’s accounting policies, and the practices and methods followed in applying them, are appropriate and are as disclosed in the financial statements.
  - There have been no changes during the period audited in the Organization’s accounting policies and practices.
  - All material transactions have been recorded in the accounting records and are reflected in the financial statements.
- Significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.
- The following, where they exist, have been appropriately disclosed to you and accounted for and/or disclosed in the financial statements in accordance with the requirements of US GAAP:
  - The identity of all related parties and related party relationships and transactions.
  - Material concentrations. We understand that concentrations refer to volumes of business, revenues, available sources of supply, or markets or geographic areas for which it is reasonably possible that events could occur which would significantly disrupt normal finances within the next year.
  - Guarantees, whether written or oral, under which the Organization is contingently liable, including guarantee contracts and indemnification agreements.
  - The effects of all known actual, possible, pending or threatened litigation, claims, and assessments.
  - Significant common ownership or management control relationships, economic interests and/or financial interests in related entities, requiring disclosure.



- The Organization does not have any uncertain tax positions that require disclosure or recognition in the financial statements.
- We have evaluated events subsequent to the date of the financial statements through the date of this letter, and no such events have occurred which would require adjustment or disclosure in the financial statements.
- We are in agreement with the adjusting journal entries you have proposed, and they have been posted to the Organization's accounts.

### **Information Provided**

- We have provided you with:
  - Access to all information, of which we are aware, that is relevant to the preparation and fair presentation of the financial statements, such as records, documentation, and other matters.
  - Access to all minutes of the meetings of the Board of Trustees.
  - Communications from regulatory agencies concerning noncompliance with or deficiencies in, financial reporting practices.
  - Additional information that you have requested from us for the purpose of the audit.
  - Unrestricted access to persons within the Organization from whom you determined it necessary to obtain audit evidence.
- We have disclosed to you our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- There are no deficiencies in the design or operation of internal control over financial reporting that are reasonably likely to adversely affect the Organization's ability to initiate, authorize, record, process, and report financial data reliably in accordance with US GAAP.
- We have no knowledge of any fraud or suspected fraud that affects the Organization and involves:
  - Management,
  - Employees who have significant roles in internal control, or
  - Others where the fraud could have a material effect on the financial statements.
- We have no knowledge of any allegations of fraud or suspected fraud affecting the Organization's financial statements communicated by employees, former employees, regulators, or others.
- We are responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to us; and we have identified and disclosed to you all laws, regulations and provisions of contracts and grant agreements that we believe have a direct

and material effect on the determination of financial statement amounts or other financial data significant to the audit objectives.

- We have no knowledge of any instances of noncompliance or suspected noncompliance with laws and regulations whose effects should be considered when preparing financial statements.
- The Organization has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.
- The Organization is an exempt organization under Section 501(c)(3) of the Internal Revenue Code. Any activities of which we are aware that would jeopardize the Organization's tax-exempt status, and all activities subject to tax on unrelated business income or excise or other tax, have been disclosed to you. All required filings with tax authorities are up-to-date.
- We have a reasonable basis for the allocation of functional expenses.
- With respect to contributions:
  - Adequate controls are in place over the receipt and recording of contributions.
  - There were no unrecorded contributions or pledges at June 30, 2018 that could materially affect the financial statements. In addition, we are unaware of any assets for which the Organization may be the beneficiary as prescribed by probated wills or held in trusts by independent trustees at June 30, 2018, which should be recorded in the financial statements.
- We have complied with all restrictions on resources (including donor restrictions) and all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance. This includes complying with donor restrictions to maintain an appropriate composition of assets needed to satisfy their restrictions.

### **Uniform Guidance Compliance Report**

The following representations are provided in connection with your audit of the Organization's compliance with the types of compliance requirements described in *Title 2 U.S. Code of Federal Regulations ("CFR") Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards ("Uniform Guidance")*, *Audits of States, Local Governments and Non-Profit Organizations* and *Government Auditing Standards* that could have a direct and material effect on each of its major federal programs (hereinafter referred to as "compliance requirements") for the **year** ended June 30, 2018 for the purpose of expressing an opinion as to whether the Organization complied with such requirements.

- With respect to federal award programs:
  - We are responsible for understanding and complying with, and have complied with the requirements of Uniform Guidance, including requirements relating to preparation of the

schedule of expenditures of federal awards.

- The schedule of expenditures of federal awards is in accordance with Uniform Guidance and identifies and discloses expenditures made during the audit period for all awards provided by federal agencies in the form of grants, federal cost-reimbursement contracts, loans, loan guarantees, property (including donated surplus property), cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations, and other direct assistance.
- We acknowledge our responsibility for presenting the schedule of expenditures of federal awards ("SEFA") in accordance with the requirements of Uniform Guidance §200.502, and we believe the SEFA, including its form and content, is fairly presented in accordance with Uniform Guidance §200.502. The methods of measurement and presentation of the SEFA have not changed from those used in the prior period, and we have disclosed to you any significant assumptions and interpretations underlying the measurement and presentation of the SEFA.
- If the SEFA is not presented with the audited financial statements, we will make the audited financial statements readily available to the intended users of the SEFA no later than the date we issue the supplementary information and the auditors' report thereon.
- We have identified and disclosed to you all of our government programs and related activities subject to Uniform Guidance.
- We are responsible for understanding and complying with the requirements of laws, regulations, and the provisions of contracts and grant agreements related to each of our federal programs and have identified and disclosed to you the requirements of laws, regulations and the provisions of contracts and grant agreements that are considered to have a direct and material effect on each major program.
- We are responsible for establishing and maintaining, and have established and maintained, effective internal control over compliance requirements applicable to federal programs that provides reasonable assurance that we are managing our federal awards in compliance with laws, regulations, and the provisions of contracts and grant agreements that could have a material effect on our federal programs. We believe the internal control system is adequate and is functioning as intended.
- We have made available to you all contracts and grant agreements (including amendments, if any) and any other correspondence with federal agencies or pass-through entities relevant to federal programs and related activities.
- We have received no requests from a federal agency to audit one or more specific programs as a major program.
- We have complied with the direct and material compliance requirements (except for

noncompliance disclosed to you), including when applicable, those set forth in the Uniform Guidance, relating to federal awards and have identified and disclosed to you all amounts questioned and all known noncompliance with the direct and material compliance requirements of federal awards.

- We have disclosed any communications from grantors and pass-through entities concerning possible noncompliance with the direct and material compliance requirements, including communications received from the end of the period covered by the compliance audit to the date of the auditor's report.
- We have disclosed to you the findings received and related corrective actions taken for previous audits, attestation engagements, and internal or external monitoring that directly relate to the objectives of the compliance audit, including findings received and corrective actions taken from the end of the period covered by the compliance audit to the date of the auditor's report.
- Amounts claimed or used for matching were determined in accordance with relevant guidelines in Uniform Guidance.
- We have disclosed to you our interpretation of compliance requirements that may have varying interpretations.
- We have made available to you all documentation related to compliance with the direct and material compliance requirements, including information related to federal program financial reports and claims for advances and reimbursements.
- There are no such known instances of noncompliance with direct and material compliance requirements that occurred subsequent to the period covered by the auditors' report.
- No changes have been made in internal control over compliance or other factors that might significantly affect internal control, including any corrective action we have taken regarding significant deficiencies in internal control over compliance (including material weaknesses in internal control over compliance), have occurred subsequent to the date as of which compliance was audited.
- Federal program financial reports and claims for advances and reimbursements are supported by the books and records from which the basic financial statements have been prepared.
- The copies of federal program financial reports provided you are true copies of the reports submitted, or electronically transmitted, to the respective federal agency or pass-through entity, as applicable.
- We have charged costs to federal awards in accordance with applicable cost principles.

- We are responsible for and have accurately prepared the summary schedule of prior audit findings to include all findings required to be included by Uniform Guidance, and we have provided you with all information on the status of the follow-up on prior audit findings by federal awarding agencies and pass-through entities, including all management decisions.
- We are responsible for and have accurately prepared the auditee section of the Data Collection Form as required by Uniform Guidance.
- We are responsible for preparing and implementing a corrective action plan for each audit finding.
- We have disclosed to you all contracts or other agreements with service organizations, and we have disclosed to you all communications from the service organizations relating to noncompliance at the service organizations.
- We have identified to you any previous audits, attestation engagements, and other studies related to the audit objectives and whether related recommendations have been implemented.
- We have evaluated events subsequent to the date of the financial statements through the date of this letter, and no such events, including instances of noncompliance, have occurred which would require adjustment or disclosure in the financial statements or in the schedule of findings and questioned costs.
- As part of your audit, you prepared the draft financial statements and related notes and schedule of expenditures of federal awards. We have designated an individual with suitable skill, knowledge, or experience to oversee your services and have made all management decisions and performed all management functions. We have reviewed, approved, and accepted responsibility for those financial statements and related notes and schedule of expenditures of federal awards.
- In regards to the tax return preparation services performed by you, we have—
  - Made all management decisions and performed all management functions.
  - Designated an individual with suitable skill, knowledge, or experience to oversee the services.
  - Evaluated the adequacy and results of the services performed.
  - Accepted responsibility for the results of the services.

  
\_\_\_\_\_  
[Name of Executive Officer and Title]

Jeff Ginsburg, Executive Director

  
\_\_\_\_\_  
[Name of Chief Financial Officer and Title]

[Name of Chief Financial Officer and Title]

Karen Harris, Managing Director, Finance





April 5, 2018

Management and the Board of Trustees  
East Harlem Scholars Academy  
2050 2<sup>nd</sup> Avenue  
New York, NY 10029

Dear Client,

This letter sets forth our understanding of the terms and objectives of our engagement, and the nature and scope of the services we will provide to East Harlem Scholars Academy ("the Organization").

### **Audit objectives**

We will audit the Organization's statement of financial position and the related statement of activities, and functional expenses and cash flows as of and for the year ending June 30, 2018 and issue our report thereon as soon as reasonably possible after completion of our work. The objective of an audit is the expression of an opinion on whether these financial statements are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America ("US GAAP").

Also, the following supplementary information accompanying the financial statements will be subjected to the auditing procedures applied in our 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, and our auditors' report will provide an opinion on such information in relation to the financial statements as a whole:

- Schedule of expenditures of federal awards
- Schedule of financial position by school
- Schedule of activities by school
- Schedule of functional expenses by school
- Schedule of cash flows by school

We will conduct the audit in accordance with auditing standards generally accepted in the United States of America ("US GAAS"), the standards for financial audits contained in Government Auditing Standards ("GAGAS") issued by the Comptroller General of the United States, and *the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards ("Uniform Guidance")*, and will include tests of accounting records, a determination of major program(s) in accordance with Uniform Guidance, and other procedures we consider necessary to enable us to express such an opinion and to render the required reports.

The aforementioned standards require that we obtain reasonable, rather than absolute, assurance that the financial statements are free of material misstatement, whether caused by error or fraudulent financial reporting; misappropriation of assets, or violations of laws or governmental regulations that are attributable to the Organization or to acts by management or employees acting on behalf of the Organization. Because the determination of abuse is subjective, GAGAS do not expect auditors to provide reasonable assurance of detecting abuse. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

Because of the inherent limitations of an audit, combined with the inherent limitations of internal control, and because we will not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us even though the audit is properly planned and performed in accordance with US GAAS and GAGAS. In addition, an audit is not designed to detect immaterial misstatements or violations of laws or governmental regulations that do not have a direct and material effect on the financial statements and on those programs we have determined to be major programs. However, we will inform the appropriate level of management of any material errors, fraudulent financial reporting or misappropriation of assets and any material abuse that comes to our attention. We will include such matters in the reports required for a Single Audit. We will also inform the appropriate level of management of any violations of laws or governmental regulations that come to our attention, unless clearly inconsequential.

The objective of our audit also includes reporting on:

- Internal control related to the financial statements and compliance with the provisions of laws, regulations, contracts or grant agreements, noncompliance with which could have a material effect on the financial statements in accordance with GAGAS.
- Internal control related to major programs and an opinion (or disclaimer of opinion) on compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a direct and material effect on each major program in accordance with Uniform Guidance.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we will perform tests of the Organization's compliance with the provisions of applicable laws, regulations, contracts, agreements, and grants. However, the objective of our audit will not be to provide an opinion on overall compliance and we will not express such an opinion in our report on compliance issued pursuant to GAGAS.

Uniform Guidance requires that we also plan and perform the audit to obtain reasonable assurance about whether the Organization has complied with applicable laws and regulations and the provisions of contracts and grant agreements applicable to major programs. Our procedures will consist of tests of transactions and other applicable procedures described in the "Uniform Guidance Compliance Supplement" for the types of compliance requirements that could have a direct and material effect on each of the Organization's major programs. The purpose of these procedures will be to express an opinion on the Organization's compliance with requirements applicable to each of its major programs in our report on compliance issued pursuant to Uniform Guidance. As required by Uniform Guidance, we will also perform tests of controls over compliance to evaluate the effectiveness of the design and operation of controls that we consider relevant to prevent or detect material noncompliance with compliance requirements applicable to each major federal award program. However, our tests will be less in scope than would be necessary to render an opinion on those controls and, accordingly, no opinion will be expressed in our report on internal control issued pursuant to Uniform Guidance.

If our opinion on either the financial statements or the Single Audit compliance is other than unmodified, we will discuss the reasons with you in advance. If, for any reason, we are unable to complete the audit or are unable to form or have not formed an opinion(s), we may decline to express an opinion or decline to issue a report as a result of the engagement.

In making our risk assessments, we consider 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. However, we will communicate to you in writing concerning any significant deficiencies or material weaknesses in internal control relevant to the audit of the financial statements that we have identified during the audit. Tests of controls may be performed to test the effectiveness of certain controls that we consider relevant to preventing and detecting errors and fraud that are material to the financial statements and to preventing and detecting misstatements resulting from illegal acts and other noncompliance matters that have a direct and material effect on the financial statements. Our tests, if performed, will be less in scope than would be necessary to render an opinion on internal control and, accordingly, no opinion will be expressed in our report on internal control issued pursuant to GAGAS. An audit is also not designed to identify significant deficiencies or material weaknesses. However, we will communicate to you in writing concerning any significant deficiencies or material weaknesses in internal control and other internal control related matters relevant to the audit of the financial statements that we have identified during the audit, as required by US GAAS, GAGAS and Uniform Guidance.

The report on internal control and compliance will include a paragraph that states that the purpose of the report is solely to describe the scope of testing of internal control over financial reporting and compliance, and the result of that testing, and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance and that the report is an integral part of an audit performed in accordance with GAGAS in considering internal control over financial reporting and compliance. The paragraph will also state that the report is not suitable for any other purpose.

At the conclusion of the engagement, we will complete the appropriate sections of the Data Collection Form that summarize our audit findings. It is management's responsibility to submit the reporting package (including financial statements, schedule of expenditures of federal awards, summary schedule of prior audit findings, auditors' reports, and corrective action plan) along with the Data Collection Form to the federal audit clearinghouse. We will coordinate with you the electronic submission and certification. If applicable, we will provide copies of our report for you to include with the reporting package you will submit to pass-through entities. The Data Collection Form and the reporting package must be submitted within the earlier of 30 days after receipt of the auditors' reports or nine months after the end of the audit period, unless a longer period is agreed to in advance by the cognizant or oversight agency for audit.

We will also communicate with those charged with governance any (a) fraud involving senior management and other fraud that causes a material misstatement of the financial statements; (b) violations of laws or governmental regulations that come to our attention (unless they are clearly inconsequential); (c) disagreements with management and other serious difficulties encountered in performing the audit; and, (d) various matters related to the Organization's accounting policies and financial statements.

As part of our engagement, we may propose standard, adjusting, or correcting journal entries to your financial statements. Management, however, has final responsibility for reviewing the proposed entries and understanding the nature and impact of the proposed entries to the financial statements. It is our understanding that management has designated qualified individuals with



the necessary expertise to be responsible and accountable for overseeing the acceptance and processing of such journal entries.

Our responsibility as auditors is limited to the period covered by our audit and does not extend to any later periods for which we are not engaged as auditors.

### **Management's responsibilities**

The financial statements and their fair presentation in accordance with US GAAP, including all informative disclosures, are the responsibility of the Organization's management. Management is also responsible for: (1) the selection and application of accounting policies; (2) 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, and for informing us of all significant deficiencies and material weaknesses in the design or operation of such controls of which it has knowledge; (3) making all financial records and related information available to us of which you are aware that is relevant to the preparation and fair presentation of the financial statements, as well as any additional information that we may request for the purpose of the audit; (4) providing us with unrestricted access to persons within the Organization from whom we determine it necessary to obtain audit evidence; and (5) adjusting the financial statements to correct material misstatements.

Management is also responsible for identifying government award programs and understanding and complying with the compliance requirements, and for preparation of the schedule of expenditures of federal awards in accordance with the requirements of Uniform Guidance. As part of the audit, we will assist with preparation of your financial statements, schedule of expenditures of federal awards, and related notes. You agree to include our report on the schedule of expenditures of federal awards in any document that contains, and indicates that we have reported on, the schedule of expenditures of federal awards. You also agree to include the audited financial statements with any presentation of the schedule of expenditures of federal awards that includes our report thereon. You are responsible for making all management decisions and assuming all management responsibilities relating to the financial statements, schedule of expenditures of federal awards and related notes, and for accepting full responsibility for such decisions.

Management's responsibilities include acknowledging to us in the written representation letter that (1) you are responsible for presentation of the supplementary information in accordance with US GAAP; (2) you believe the supplementary information, including its form and content, is fairly presented in accordance with US GAAP; (3) the methods of measurement or presentation have not changed from those used in the prior period (or, if they have changed, the reasons for such changes); and (4) you have disclosed to us any significant assumptions or interpretations underlying the measurement or presentation of the supplementary information.

In order to help ensure that appropriate goals and objectives are met and that there is reasonable assurance that government programs are administered in compliance with compliance requirements, management is responsible for establishing and maintaining effective internal control, including internal control over compliance, and for evaluating and monitoring ongoing activities.

Management's responsibilities also include identifying any significant vendor relationships in which the vendor has responsibility for program compliance and for the accuracy and completeness of that information.

You are responsible for the design and implementation of programs and controls to prevent and

detect fraud, and for informing us about all known or suspected fraud or illegal acts affecting the Organization involving (1) management, (2) employees who have significant roles in internal control, and (3) others where the fraud or illegal acts could have a material effect on the financial statements. Your responsibilities include informing us of your knowledge of any allegations of fraud or suspected fraud affecting the Organization received in communications from employees, former employees, grantors, regulators, or others. In addition, you are responsible for identifying and ensuring that the Organization complies with applicable laws, regulations, contracts, agreements and grants and for taking timely and appropriate steps to remedy any fraud, illegal acts, violations of contracts or grant agreements, or abuse that we may report. Additionally, as required by Uniform Guidance, it is management's responsibility to follow up and take corrective action on reported audit findings and to prepare a summary schedule of prior audit findings and a corrective action plan.

Management is responsible for establishing and maintaining a process for tracking the status of audit findings and recommendations. Management is also responsible for identifying for us previous financial audits, attestation engagements, performance audits, or other studies related to the objectives discussed in the audit objectives section of this letter. This responsibility includes relaying to us corrective actions taken to address significant findings and recommendations resulting from those audits, attestation engagements, performance audits, or other engagements or studies. The Organization is also responsible for providing management's views on our current findings, conclusions, and recommendations, as well as your planned corrective actions for the report, and for the timing and format for providing that information.

At the conclusion of the engagement, we will request from management written confirmation concerning representations made to us in connection with the audit. The representation letter, among other things, will confirm management's responsibility for: (1) the preparation of the financial statements in conformity with US GAAP, (2) the availability of financial records and related data, and (3) the completeness and availability of all minutes of board meetings. Management's representation letter will further confirm that: (1) the effects of any uncorrected misstatements aggregated by us during the engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole, and (2) we have been informed of, or that there were no incidences of, fraud involving management or those employees who have significant roles in the Organization's internal control. You will also be required to acknowledge in the management representation letter our assistance with preparation of the financial statements and schedule of expenditures of federal awards and that you have reviewed and approved the financial statements, schedule of expenditures of federal awards, and related notes prior to their issuance and have accepted responsibility for them. We will place reliance on these representations in issuing our report.

In the event that we become obligated to pay any cost, settlement, judgment, fine, penalty, or similar award or sanction as a result of a claim, investigation, or other proceeding instituted by any third party, as a direct or indirect result of an intentional, knowing or reckless misrepresentation or provision to us of inaccurate or incomplete information by the Organization or any director, officer or employee thereof in connection with this engagement, and not any failure on our part to comply with professional standards, you agree to indemnify us against such obligations.

To the best of your knowledge, you are unaware of any facts which might impair our independence with respect to this engagement.

The financial statements are the property of the Organization and can be reproduced and distributed as management desires. However, you must notify us in advance and obtain our approval if you intend to make reference to our firm in a document that includes our auditors' report on the financial statements. Because our engagement does not contemplate the foregoing,

there may be an additional fee in connection with our review of any such documents. In the event our auditor/client relationship has been terminated when the Organization seeks such consent, we will be under no obligation to grant such consent or approval.

With regard to the electronic dissemination of audited financial statements, including financial statements published electronically on your website, you understand that electronic sites are a means to distribute information and, therefore, we are not required to read the information contained in these sites or to consider the consistency of other information in the electronic site with the original document.

We understand that your accounting department personnel will assist us to the extent practicable in completing the audit. They will provide us with detailed trial balances, supporting schedules, and other information we deem necessary. A list of these schedules and other items of information will be furnished to you before we begin the audit. The timely and accurate completion of this information is an essential condition to our completion of the audit and the issuance of the audit report.

We keep documents related to this engagement in accordance with our records retention policy and applicable regulations or for any additional period requested by the applicable cognizant agency. If we are aware that a federal awarding agency or the Organization is contesting an audit finding, we will contact the party(ies) contesting the audit finding for guidance prior to destroying the audit documentation. We do not keep any original client records, so we will return those to you at the completion of the services rendered under this engagement. When records are returned to you, it is your responsibility to retain and protect your records for possible future use, including potential examination by any government or regulatory agencies.

Management is responsible for management decisions and assuming all management responsibilities; for designating an individual with suitable skill, knowledge, and/or experience to oversee the tax or other non-attest services we provide; and for evaluating the adequacy and results of those services and accepting responsibility for them.

#### **Non-reliance on oral advice**

It is our policy to put all advice on which a client intends to rely in writing. We believe that is necessary to avoid confusion and to make clear the specific nature and limitations of our advice. You should not rely on any advice that has not been put in writing by our firm after a full supervisory review.

#### **Electronic and other communication**

During the course of the engagement, we may communicate with you or with Organization personnel via fax or e-mail. You should be aware that communication in those media may be unsafe to use and contains a risk of misdirection and/or interception by unintended third parties, or failed delivery or receipt. In that regard, you agree that we shall have no liability for any loss or damage to any person or entity resulting from the use of e-mail or other electronic transmissions, including any consequential, incidental, direct, indirect or special damages.

#### **Access to working papers**

During the course of this engagement, we will develop files of various documents, schedules and other related engagement information known as our working papers. As we are sure you can appreciate, these working papers may contain confidential information and our firm's proprietary data. You understand and agree that these working papers are, and will remain, our exclusive property. Except as discussed below, any requests for access to our working papers will be

discussed with you before making them available to requesting parties:

- (1) Our firm, as well as other accounting firms, participates in a peer review program covering our audit and accounting practices. This program requires that once every three years we subject our system of quality control to an examination by another accounting firm. As part of this process, the other firm will review a sample of our work. It is possible that the work we perform for you may be selected for review. If it is, the other firm is bound by professional standards to keep all information confidential.
- (2) We may be requested to make certain working papers available to regulators pursuant to authority given to them by law, regulation or subpoena. Such regulators may include (i) a federal agency providing direct or indirect funding or the U.S. Government Accountability Office for purposes of a quality review of the audit, to resolve audit findings, or to carry out oversight responsibilities; (ii) the American Institute of Certified Public Accountants; and (iii) the State Board of Accountancy. If requested, access to such working papers will be provided under the supervision of our personnel. Furthermore, upon request, we may provide photocopies of selected working papers to them. The regulator may intend, or decide, to distribute the photocopies or information contained therein to others, including other government agencies.

### **Fees and billing**

Our fees are based on actual time expended at our standard hourly rates, plus travel and other out-of-pocket costs. We estimate our fees will be \$38,000. Progress billings will be submitted periodically and will be payable upon presentation. In addition, if the condition of the accounting records is such that it would require excessive time on our part, we will consult with you beforehand regarding any possible additional charge for the time involved.

In accordance with our firm policies, work may be suspended if your account becomes overdue and will not be resumed until your account is paid in full. If we elect to terminate our services for nonpayment, our engagement will be deemed to have been completed even if we have not issued our report. You will be obligated to compensate us for all time expended and to reimburse us for all out-of-pocket expenditures through the date of termination.

### **Liability**

Any and all claims by the Organization arising under this engagement must be commenced by the Organization within one year following the date on which our firm delivered our report on the financial statements associated with this engagement, or the date the Organization is informed of the engagement's termination in the event our report is not delivered, for any reason.

Our firm's maximum liability to the Organization for any reason relating to the services under this letter shall be limited to three times the fees paid to the firm for the services or work product giving rise to liability, except to the extent it is finally determined that such liability resulted from the willful or intentional misconduct or fraudulent behavior of the firm. In no event shall the firm be liable to the Organization, whether a claim be in tort, contract or otherwise, for any consequential, indirect, lost profit or similar damages.

You agree to indemnify our firm, its partners, principals and employees, to the fullest extent permitted by law for any expense, including compensation for our time at our standard billing rates and reimbursement for our out-of-pocket expenses and reasonable attorneys' fees, incurred in complying with or responding to any request (by subpoena or otherwise) for testimony, documents or other information concerning the Organization by any governmental agency or investigative body or by a party in any litigation or dispute other than litigation or disputes involving claims by

the Organization against the firm. This indemnification will survive termination of this engagement.

### **Dispute resolution**

Any claim or controversy ("dispute") arising out of or relating to this engagement, the services provided thereunder, or any other services provided by or on behalf of the firm or any of its subcontractors or agents to the Organization or at its request (including any dispute involving any person or entity for whose benefit the services in question are or were provided), shall first be submitted in good faith for mediation administered by the American Arbitration Association ("AAA") under its Mediation Rules. Each party shall bear its own costs in the mediation. Absent an agreement to the contrary, the fees and expenses of the mediator shall be shared equally by the parties.

If the dispute is not resolved by mediation within 90 days of its submission to the mediator, then, and only then, the parties shall submit the dispute for arbitration administered by the American Arbitration Association under its Professional Accounting and Related Services Dispute Resolution Rules (the "Rules"). The arbitration will be conducted before a single arbitrator selected from the AAA's Panel of Accounting Professionals and Attorneys and shall take place in New York, New York.

Any discovery sought in connection with the arbitration must be expressly approved by the arbitrator upon a showing of substantial need by the party seeking discovery.

All aspects of the arbitration shall be treated as confidential. The parties and the arbitrator may disclose the existence, content or result of the arbitration only as expressly provided by the Rules.

The arbitrator shall issue his or her final award in a written and reasoned decision to be provided to each party. In his or her decision, the arbitrator will declare one party the prevailing party. The arbitrator shall have the power to award to the prevailing party reasonable legal fees associated with the arbitration and prior mediation. The arbitrator shall have no authority to award non-monetary or equitable relief of any sort. The arbitrator shall not have authority to award damages that are punitive in nature, or that are not measured by the prevailing party's actual compensatory loss.

The award reached as a result of the arbitration will be binding on the parties and confirmation of the arbitration award may be sought in any court having jurisdiction.

This engagement will be governed by the laws of the State of New York, without giving effect to any provisions relating to conflict of laws that would require the laws of another jurisdiction to apply.

### **Confirmation and other**

Gus Saliba is the engagement partner and is responsible for supervising the engagement and signing the report or authorizing another individual to sign it.

GAGAS require that we provide you with a copy of our most recent external peer review report, and any subsequent peer review reports received during the period of the contract. Our latest peer review report accompanies this letter.

We will provide copies of our reports to the Organization; however, management is responsible for distribution of the reports and the financial statements. Unless restricted by law or regulation, or containing privileged and confidential information, copies of our reports are to be made available for public inspection.

Our audit engagement for the year ends on delivery of our audit report covering that year. Requests for services other than those included in this engagement letter will be agreed upon separately.

The audit documentation for this engagement will be retained for a minimum of five years after the report release date or for any additional period requested. If we are aware that a federal awarding agency or the Organization is contesting an audit finding, we will contact the party(ies) contesting the audit finding for guidance prior to destroying the audit documentation.

All rights and obligations set forth herein shall become the rights and obligations of any successor firm to PKF O'Connor Davies, LLP by way of merger, acquisition or otherwise.

If this letter correctly expresses your understanding of the terms of our engagement, including our respective responsibilities, please sign the enclosed copy where indicated and return it to us.

We are pleased to have this opportunity to serve you.

Very truly yours,

*PKF O'Connor Davies, LLP*

PKF O'Connor Davies, LLP

The services and terms described in the foregoing letter are in accordance with our requirements and are acceptable to us.

**East Harlem Scholars Academy**

BY: *Karen B Horne*  
TITLE: *Managing Director, Finance*  
DATE: *7/12/18*

PKF O'Connor Davies, LLP, is a member firm of PKF International Limited, a network of legally independent firms. Neither the other member firms nor PKF International Limited are responsible or accept liability for the work or advice which PKF O'Connor Davies, LLP provides to its clients.

\*\*\*