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Capital Preparatory Harlem Charter School

Financial Statements

June 30, 2017

Independent Auditors' Report

Board of Trustees Capital Preparatory Harlem Charter School

Report on the Financial Statements

We have audited the accompanying financial statements of Capital Preparatory Harlem Charter School (the "School"), which comprise the statement of financial position as of June 30, 2017, and the related statements of activities, functional expenses, and cash flows for the period from November 18, 2014 (inception) to June 30, 2017, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the School as of June 30, 2017, and the changes in its net assets and its cash flows for the period from November 18, 2014 (inception) to June 30, 2017 in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2017, 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.

Harrison, New York
October 31, 2017

Capital Preparatory Harlem Charter School

Statement of Financial Position

June 30, 2017

ASSETS

Current Assets

Cash and cash equivalents	\$ 633,423
Grants and contracts receivable	122,990
Prepaid expenses and other current assets	<u>41,030</u>
Total Current Assets	797,443

Property and equipment, net	589,890
Restricted cash	<u>25,000</u>

\$ 1,412,333

LIABILITIES AND NET ASSETS

Current Liabilities

Accounts payable and accrued expenses	\$ 85,550
Refundable advances	533,981
Due to related party	<u>85,463</u>
Total Current Liabilities	704,994

Deferred rent	<u>375,291</u>
Total Liabilities	1,080,285

Net assets, unrestricted	<u>332,048</u>
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\$ 1,412,333

Capital Preparatory Harlem Charter School

Statement of Activities
 Period from November 18, 2014 (Inception) to June 30, 2017

REVENUE AND SUPPORT

State and local per pupil operating revenue	
General education	\$ 2,292,756
Special education	57,540
Lease assistance	458,102
Federal grants	826,091
State and city grants	427,468
Rental income	188,704
Contributions	10,367
Other income	175
Total Revenue and Support	4,261,203

EXPENSES

Program Services	
Regular education	2,499,316
Special education	755,294
Total Program Services	3,254,610
Supporting Services	
Management and general	674,545
Total Expenses	3,929,155

Change in Net Assets 332,048

NET ASSETS, UNRESTRICTED

Beginning of period	-
June 30, 2017	\$ 332,048

Capital Preparatory Harlem Charter School

Statement of Functional Expenses
Period from November 18, 2014 (Inception) to June 30, 2017

	No. of Positions	Program Services			Management and General	Total
		Regular Education	Special Education	Total		
Personnel Services Costs						
Administrative staff personnel	2	\$ 105,980	\$ -	\$ 105,980	\$ 45,420	\$ 151,400
Instructional personnel	17	727,961	299,524	1,027,485	16,832	1,044,317
Non-instructional personnel	2	67,034	-	67,034	67,035	134,069
Total Salaries and Staff	21	900,975	299,524	1,200,499	129,287	1,329,786
Fringe benefits and payroll taxes		220,472	73,295	293,767	31,636	325,403
Retirement		6,603	2,195	8,798	947	9,745
Management company fees		-	-	-	229,051	229,051
Legal services		-	-	-	102,410	102,410
Accounting/audit services		-	-	-	28,000	28,000
Other purchased/professional/consulting services		233,906	17,203	251,109	5,521	256,630
Building and land rent/lease		740,830	246,284	987,114	106,306	1,093,420
Repairs and maintenance		55,737	18,530	74,267	7,998	82,265
Insurance		22,509	7,483	29,992	3,229	33,221
Utilities		1,447	481	1,928	208	2,136
Supplies/materials		53,558	15,725	69,283	-	69,283
Equipment/furnishings		27,205	7,637	34,842	3,296	38,138
Staff development		6,400	1,961	8,361	301	8,662
Marketing/recruitment		27,505	3,325	30,830	1,436	32,266
Technology		64,890	21,572	86,462	9,311	95,773
Food services		36,875	10,826	47,701	-	47,701
Student services		11,971	-	11,971	-	11,971
Office expense		10,695	3,410	14,105	1,473	15,578
Depreciation and amortization		68,822	22,879	91,701	9,876	101,577
Other expenses		8,916	2,964	11,880	4,259	16,139
Total Expenses		<u>\$ 2,499,316</u>	<u>\$ 755,294</u>	<u>\$ 3,254,610</u>	<u>\$ 674,545</u>	<u>\$ 3,929,155</u>

See notes to financial statements

Capital Preparatory Harlem Charter School

Statement of Cash Flows
 Period from November 18, 2014 (Inception) to June 30, 2017

CASH FLOWS FROM OPERATING ACTIVITIES

Change in net assets	\$	332,048
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation and amortization		101,577
Deferred rent		375,291
Changes in operating assets and liabilities		
Grants and contracts receivable		(122,990)
Prepaid expenses and other current assets		(41,030)
Accounts payable and accrued expenses		85,550
Refundable advances		533,981
Due to related party		85,463
Net Cash from Operating Activities		1,349,890

CASH FLOWS FROM INVESTING ACTIVITIES

Purchases of property and equipment		(691,467)
Restricted cash		(25,000)
Net Cash from Investing Activities		(716,467)

Net Change in Cash and Cash Equivalents 633,423

CASH AND CASH EQUIVALENTS

Beginning of period		-
June 30, 2017	\$	633,423

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Capital Preparatory Harlem Charter School

Notes to Financial Statements
June 30, 2017

1. Organization and Tax Status

Capital Preparatory Harlem Charter School (the "School") is a New York State, not-for-profit educational corporation that was incorporated on November 18, 2014 to operate a charter school pursuant to Article 56 of the Education Law of the State of New York. The School was granted a provisional charter on November 18, 2014 valid for a term of five years and renewable upon expiration by the Board of Regents of the University of the State of New York. The School's mission is to provide historically disadvantaged students with the college and career readiness skills needed to become responsible and engaged citizens for social justice. The School provided education to approximately 159 students in grades sixth and seventh during the 2016-2017 academic year.

Except for taxes that may be due for unrelated business income, the School is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and from state and local income taxes under comparable laws.

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 contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly actual results could differ from those estimates.

Net Assets Presentation

Resources for various purposes are classified for accounting and reporting purposes into net asset categories established according to nature and purpose as follows:

Unrestricted - consist of resources available for the general support of the School's operations. Unrestricted net assets may be used at the discretion of the School's management and Board of Trustees.

Temporarily Restricted - represent amounts restricted by donors for specific activities of the School or to be used at some future date. The School records contributions as temporarily restricted if they are received with donor stipulations that limit their use either through purpose or time restrictions. When a donor restriction expires, that is, when a time restriction ends or a purpose restriction is fulfilled, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. However, when restrictions on donor-restricted contributions are met in the same accounting period in which they are received, such amounts are reported as unrestricted net assets.

Capital Preparatory Harlem Charter School

Notes to Financial Statements
June 30, 2017

2. Summary of Significant Accounting Policies (continued)

Net Assets Presentation (continued)

Permanently Restricted - consist of net assets that are subject to donor imposed restrictions that require the School to maintain them permanently, including funds that are subject to restrictions of gift instruments requiring that the principal be invested in perpetuity and the income be used for specific or general purposes. Income and gains earned on endowment fund investments are available to be used in the unrestricted or temporarily restricted net asset classes based upon stipulations by the donors.

The School had no temporarily or permanently restricted net assets at June 30, 2017.

Cash and Cash Equivalents

Cash and cash equivalents include cash balances held in bank accounts and highly liquid debt instruments with maturities of three months or less at the time of purchase.

Restricted Cash

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

Property and Equipment

The School follows the practice of capitalizing all expenditures for property and equipment with costs in excess of \$5,000 and a useful life in excess of one year. Leasehold improvements are amortized over the shorter of the term of the lease, inclusive of all renewal periods, which are reasonably assured, or the estimated useful life of the asset. Purchased property and equipment are recorded at cost at the date of acquisition. Minor costs of maintenance and repairs are expensed as incurred. All property and equipment purchased with government funding is capitalized, unless the government agency retains legal title to such assets, whereby such assets are expensed as incurred.

Depreciation and amortization is recognized on the straight-line method over the estimated useful lives of such assets as follows:

Furniture and fixtures	7 years
Computers and equipment	5 years

Property and equipment are reviewed for impairment if the use of the asset significantly changes or another indicator of possible impairment is identified. If the carrying amount for the asset is not recoverable, the asset is written down to the fair value. There were no asset impairments for the period ended June 30, 2017.

Refundable Advances

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

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Capital Preparatory Harlem Charter School

Notes to Financial Statements
June 30, 2017

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

Deferred Rent

The School records its rent in accordance with U.S. GAAP, whereby all rental payments, including fixed rent increases, are recognized on a straight-line basis as an offset to rent expense. The difference between the straight-line rent expense and the required lease payments, as well as any unamortized lease incentive, is reflected in deferred rent in the accompanying statement of financial position.

Revenue and Support

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

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

Marketing and Recruitment

Marketing and recruitment costs are expensed as incurred for staff and student recruitment. Marketing and recruitment expense for the period from November 18, 2014 (inception) to June 30, 2017 was \$32,266.

Functional Expense Allocation

The majority of expenses can generally be directly identified with the program or supporting service to which they relate and are charged accordingly. Other expenses by function have been allocated among program and supporting services classifications on the basis of periodic time and expense studies and other basis as determined by management of the School to be appropriate.

Accounting for Uncertainty in Income Taxes

The School recognizes the effect of income tax positions only if those positions 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. All returns filed by the School are subject to examinations by the applicable taxing jurisdictions.

Capital Preparatory Harlem Charter School

Notes to Financial Statements
June 30, 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 31, 2017.

3. Grants and Contracts Receivable

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

4. Property and Equipment

Property and equipment consists of the following at June 30, 2017:

Furniture and fixtures	\$ 161,494
Computers and equipment	212,903
Leasehold improvements	<u>317,070</u>
	691,467
Accumulated depreciation and amortization	<u>(101,577)</u>
	<u>\$ 589,890</u>

5. Related Party Transactions

The School is affiliated with Capital Preparatory Schools, Inc. ("CPS"), a Connecticut non-stock corporation, by common management.

Prior to the School's opening, the School entered into an interim service agreement with CPS to assist in securing a facility on the School's behalf and other related costs during the pre-opening period. During fiscal 2017, the School entered into a full service agreement with CPS to undertake, on its behalf, functions in regards to business, administrative, and academic services of the School. As compensation to CPS for these services rendered, the School shall pay to CPS an amount each year equal to 10% of the School's per pupil general education revenue.

For the period from November 18, 2014 (inception) to June 30, 2017, the School incurred \$229,051 in management fees to CPS, along with \$14,807 of net operating expenses paid by CPS on behalf of the School. Net balance due to CPS from the School was \$85,463 at June 30, 2017.

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Capital Preparatory Harlem Charter School

Notes to Financial Statements
June 30, 2017

6. Employee Benefit Plan

The School maintains a pension plan qualified under Internal Revenue Code 401(k), for the benefit of its eligible employees. Under the plan, the School provided matching contributions up to 4% of the participant's annual compensation. Employee match for the period from November 18, 2014 (inception) to June 30, 2017 amounted to \$9,745.

7. Concentration of Credit Risk

Financial instruments that potentially subject the School to concentrations of credit and market risk consist principally of cash and cash equivalents on deposit with financial institutions, which from time to time may exceed the Federal Deposit Insurance Corporation ("FDIC") limit. The School does not believe that a significant risk of loss due to the failure of a financial institution presently exists. As of June 30, 2017, approximately \$408,000 of cash was maintained with an institution in excess of FDIC limits.

8. Concentration of Revenue and Support

The School receives a substantial portion of its revenue and support from the New York City Department of Education. For the period from November 18, 2014 (inception) to June 30, 2017, the School received approximately 66% of total revenue and support from the New York City Department of Education. If the charter school laws were modified, reducing or eliminating these revenues, the School's finances could be materially adversely affected.

9. Commitment

On March 17, 2016, the School entered into an operating sub-sublease agreement with Boys and Girls Harbor, Inc. ("The Harbor") to sublease a portion of a building located at 1 East 104th Street, New York, New York. The lease term commenced on July 1, 2016 and expires on June 30, 2021, with four successive options to extend the term of the sublease by up to five years per option.

Future minimum lease payments are as follows for years ending June 30:

2018	\$ 741,821
2019	1,229,684
2020	1,291,029
2021	1,355,511
	<u>\$ 4,618,045</u>

Rent expense under this lease for the period from November 18, 2014 (inception) to June 30, 2017 was \$1,064,908.

Capital Preparatory Harlem Charter School

Notes to Financial Statements
June 30, 2017

9. Commitment (continued)

Under the terms of the lease, The Harbor pays a monthly usage fee to the School for the use of the premises, which is recognized by the School as rental income.

Future minimum lease payments to be received are as follows for years ending June 30:

2018	\$ 198,139
2019	208,046
2020	218,425
2021	<u>229,334</u>
	<u>\$ 853,944</u>

Rental income for the period from November 18, 2014 (inception) to June 30, 2017 was \$188,704.

10. Contingency

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

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Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Independent Auditors' Report

Board of Trustees Capital Preparatory Harlem 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 Capital Preparatory Harlem Charter School (the "School"), which comprise the statement of financial position as of June 30, 2017, and the related statements of activities, functional expenses, and cash flows for the period from November 18, 2014 (inception) to June 30, 2017, and the related notes to the financial statements, and have issued our report thereon dated October 31, 2017.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a deficiency in internal control, described in the accompanying schedule of findings and responses as 2017-001 that we consider to be a significant deficiency.

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*. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as 2017-001.

The School's Response to the Findings

The School's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The School's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

We noted certain matters that were reported to the management of the School in a separate letter dated October 31, 2017.

Purpose of this Report

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

Harrison, New York
October 31, 2017

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Capital Preparatory Harlem Charter School

Schedule of Findings and Responses
Year Ended June 30, 2017

Financial Statement Findings

2017-001- Maintenance of Student Records

Criteria

Appropriate records of student enrollment should be properly maintained in student files.

Condition

We noted the following exceptions during our test of 25 student files:

- One student file could not be located by the School
- Two files were missing IEP programs
- One file was missing proof of residency
- Three files were missing second proof of residency
- Nineteen files were missing immunization records
- Three files were missing prior school records
- One file was missing birth certificate
- Six files were missing Home Language Identification Surveys

Cause

This condition is caused by management's lack of oversight and inability to prepare and maintain adequate records.

Effect

The School is not in compliance with its financial policies and procedures manual and with City and State laws and regulations.

Recommendation

In an effort to ensure that student records are complete, we recommend that the School's Student Registration Packet be utilized periodically to insure that information is complete and updated for each student file. A log book should be maintained to track any files that are removed.

Views of Responsible Officials