

Challenge Preparatory Charter School

Financial Statements

June 30, 2017 and 2016



Independent Auditors' Report

Board of Trustees Challenge Preparatory Charter School

We have audited the accompanying financial statements of Challenge Preparatory Charter School (the "School"), which comprise the statements of financial position as of June 30, 2017, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

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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 year then ended in accordance with accounting principles generally accepted in the United States of America.

Prior Period Financial Statements

The summarized comparative financial statements as of June 30, 2016 and for the year then ended, were audited by other auditors who ceased operations. Those auditors expressed an unmodified opinion on those financial statements in their report dated September 19, 2016.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 15, 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.

PKF O'Connor Davies, LLP

Harrison, New York
September 15, 2017

Challenge Preparatory Charter School

Statement of Financial Position
 June 30, 2017
 (with comparative amounts at June 30, 2016)

	2017	2016
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 2,429,677	\$ 2,208,494
Grants and contracts receivable	345,638	232,356
Prepaid expenses and other current assets	244,535	218,327
Total Current Assets	3,019,850	2,659,177
Property and equipment, net	972,753	841,556
Restricted cash	70,000	70,000
Security deposits	282,592	250,592
	\$ 4,345,195	\$ 3,821,325
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable and accrued expenses	\$ 159,872	\$ 127,083
Accrued payroll and payroll taxes	498,310	401,100
Total Current Liabilities	658,182	528,183
Deferred rent	1,781,167	1,382,337
Total Liabilities	2,439,349	1,910,520
Net Assets		
Unrestricted	1,905,846	1,890,805
Temporarily restricted	-	20,000
Total Net Assets	1,905,846	1,910,805
	\$ 4,345,195	\$ 3,821,325

See notes to financial statements

Challenge Preparatory Charter School

Statement of Activities
Year Ended June 30, 2017
(with summarized totals for the year ended June 30, 2016)

	2017			2016
	Unrestricted	Temporarily Restricted	Total	Total
REVENUE AND SUPPORT				
State and local per pupil operating revenue	\$ 10,681,505	\$ -	\$ 10,681,505	\$ 9,070,305
State and local per pupil facilities funding	511,006	-	511,006	225,571
Federal grants	260,346	-	260,346	252,059
State and city grants	55,283	-	55,283	32,037
Contributions and private grants	29,981	-	29,981	51,254
Net assets released from restrictions	<u>20,000</u>	<u>(20,000)</u>	<u>-</u>	<u>-</u>
Total Revenue and Support	<u>11,558,121</u>	<u>(20,000)</u>	<u>11,538,121</u>	<u>9,631,226</u>
EXPENSES				
Program services				
Regular education	6,879,207	-	6,879,207	6,424,038
Special education	<u>1,695,482</u>	<u>-</u>	<u>1,695,482</u>	<u>1,133,457</u>
Total program services	8,574,689		8,574,689	7,557,495
Supporting services				
Management and general	2,937,115	-	2,937,115	1,293,466
Fundraising	<u>31,276</u>	<u>-</u>	<u>31,276</u>	<u>32,715</u>
Total Expenses	<u>11,543,080</u>	<u>-</u>	<u>11,543,080</u>	<u>8,883,676</u>
Change in Net Assets	15,041	(20,000)	(4,959)	747,550
NET ASSETS				
Beginning of year	<u>1,890,805</u>	<u>20,000</u>	<u>1,910,805</u>	<u>1,163,255</u>
End of year	<u>\$ 1,905,846</u>	<u>\$ -</u>	<u>\$ 1,905,846</u>	<u>\$ 1,910,805</u>

See notes to financial statements

Challenge Preparatory Charter School

Statement of Functional Expenses
Year Ended June 30, 2017
(with summarized totals for the year ended June 30, 2016)

	2017						2016
	Program Services			Management and		Total	Total
	Regular Education	Special Education	Total	General	Fundraising		
Salaries	\$ 3,262,356	\$ 870,280	\$ 4,132,636	\$ 1,508,760	\$ 16,425	\$ 5,657,821	\$ 4,297,133
Payroll taxes and employee benefits	773,235	206,272	979,507	357,603	3,893	1,341,003	1,003,312
Professional development	139,064	18,757	157,821	25,288	-	183,109	104,361
Audit and accounting fees	-	-	-	22,250	-	22,250	22,250
Legal fees	-	-	-	-	-	-	3,776
Financial management fees	-	-	-	125,122	-	125,122	120,000
Consulting fees	342,873	83,622	426,495	149,477	1,427	577,399	646,468
Contractual services	168,347	22,706	191,053	-	-	191,053	44,863
Teacher and student recruitment	67,434	9,095	76,529	-	-	76,529	25,139
Student services and staff team building	94,877	12,797	107,674	1,365	-	109,039	73,823
Curriculum and classroom materials	279,428	37,688	317,116	-	-	317,116	217,725
Occupancy	1,212,097	323,344	1,535,441	560,565	6,103	2,102,109	1,770,146
Utilities	74,998	20,007	95,005	34,684	378	130,067	80,774
Office supplies	53,317	14,223	67,540	35,651	268	103,459	82,362
Postage and delivery	3,758	1,003	4,761	1,738	19	6,518	5,614
Telephone and internet services	40,788	5,098	45,886	4,078	1,020	50,984	27,001
Information technology	73,507	14,699	88,206	21,442	1,062	110,710	39,991
Insurance	41,766	11,142	52,908	19,317	210	72,435	46,342
Special events	-	-	-	-	-	-	1,944
Dues and subscriptions	6,807	918	7,725	-	-	7,725	2,020
Depreciation and amortization	151,009	18,876	169,885	18,876	-	188,761	136,667
Maintenance and repairs	93,546	24,955	118,501	43,261	471	162,233	131,715
Miscellaneous	-	-	-	7,638	-	7,638	250
Total Expenses	<u>\$ 6,879,207</u>	<u>\$ 1,695,482</u>	<u>\$ 8,574,689</u>	<u>\$ 2,937,115</u>	<u>\$ 31,276</u>	<u>\$ 11,543,080</u>	<u>\$ 8,883,676</u>

See notes to financial statements

Challenge Preparatory Charter School

Statement of Cash Flows
Year Ended June 30, 2017
(with comparative amounts for the year ended June 30, 2016)

	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (4,959)	\$ 747,550
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	188,761	136,667
Changes in operating assets and liabilities		
Grants and contracts receivable	(113,282)	(177,875)
Prepaid expenses and other current assets	(26,208)	(33,965)
Security deposits	(32,000)	-
Accounts payable and accrued expenses	32,789	15,354
Accrued payroll and payroll taxes	97,210	68,029
Deferred rent	<u>398,830</u>	<u>274,962</u>
Net Cash from Operating Activities	<u>541,141</u>	<u>1,030,722</u>
CASH FLOWS FROM INVESTING ACTIVITY		
Purchases of property and equipment	<u>(319,958)</u>	<u>(472,532)</u>
Net Change in Cash and Cash Equivalents	221,183	558,190
CASH AND CASH EQUIVALENTS		
Beginning of year	<u>2,208,494</u>	<u>1,650,304</u>
End of year	<u>\$ 2,429,677</u>	<u>\$ 2,208,494</u>

See notes to financial statements

Challenge Preparatory Charter School

Notes to Financial Statements
June 30, 2017 and 2016

1. Organization and Tax Status

Challenge Preparatory Charter School (the "School") is a New York State, not-for-profit educational corporation that was incorporated on February 9, 2010 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 February 9, 2010 valid for a term of five years and renewable upon expiration by the Board of Regents of the University of the State of New York. During 2015, the Board of Regents extended the School's charter through June 30, 2019. The School's educational philosophy promotes high levels of academic achievement and tailoring instruction to ensure that academic needs of all students are met. The School's founders believe that good instruction recognizes the interrelation of content knowledge and higher order thinking and that, accordingly, good instruction should reflect a balanced approach to learning. Classes commenced in Far Rockaway, New York in August 2011 and the School provided education to approximately 684 students in kindergarten through seventh grade during the 2016-2017 academic year.

The New York City Department of Education provides free lunches and transportation directly to some of the School's students. Such costs are not included in these financial statements. The School covers a portion of the cost of lunches for children not entitled to the free lunches.

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.

Challenge Preparatory Charter School

Notes to Financial Statements
June 30, 2017 and 2016

2. Summary of Significant Accounting Policies

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.

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 permanently restricted net assets at June 30, 2017 and 2016.

Cash and Cash Equivalents

Cash and cash equivalents include cash balances held in bank accounts and highly liquid financial 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.

Challenge Preparatory Charter School

Notes to Financial Statements
June 30, 2017 and 2016

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

Property and Equipment

The School follows the practice of capitalizing all expenditures for property and equipment with costs in excess of \$3,000. Leasehold improvements are amortized over the shorter of the term of the lease 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, is expensed as incurred.

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

Computers and equipment	3 years
Furniture and fixtures	5 years
Software and website development	3 years
Standby generator	15 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 years ended June 30, 2017 and 2016.

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.

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 year activities are recorded as unrestricted revenue. Contributions of assets other than cash are recorded at their estimated fair value at the date of donation.

Challenge Preparatory Charter School

Notes to Financial Statements
June 30, 2017 and 2016

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

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. The School is no longer subject to examinations by the applicable taxing jurisdictions for years prior to June 30, 2014.

Reclassification

Certain reclassifications have been made to the prior year financial statements to conform to the current year's presentation.

Prior Year Summarized Comparative Financial Information

The financial statements include prior-year summarized comparative information in total but not by net asset class. 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 for the year ended June 30, 2016, from which the summarized information was derived.

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 September 15, 2017.

3. Grants and Contracts Receivable

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

Challenge Preparatory Charter School

Notes to Financial Statements
June 30, 2017 and 2016

4. Property and Equipment

Property and equipment consists of the following at June 30:

	<u>2017</u>	<u>2016</u>
Computers and equipment	\$ 347,695	\$ 173,596
Furniture and fixtures	356,919	284,327
Software and website development	28,289	28,289
Standby generator	127,589	127,589
Leasehold improvements	394,372	371,105
Construction in progress	<u>300,000</u>	<u>250,000</u>
	1,554,864	1,234,906
Accumulated depreciation and amortization	<u>(582,111)</u>	<u>(393,350)</u>
	<u><u>\$ 972,753</u></u>	<u><u>\$ 841,556</u></u>

Construction in progress at June 30, 2017 consists of soft costs associated with the new facilities at 15-20 Central Avenue, Queens, New York (see Note 9).

5. Employee Benefit Plan

The School maintains a pension plan qualified under Internal Revenue Code 403(b), for the benefit of its eligible employees. Under the plan, the School provided matching contributions up to 3% of annual compensation. Employer match for the years ended June 30, 2017 and 2016 amounted to \$80,124 and \$79,585.

6. 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 \$2,180,000 of cash was maintained with an institution in excess of FDIC limits.

7. 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 years ended June 30, 2017 and 2016, the School received approximately 97% 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.

8. Temporarily Restricted Net Assets

Temporarily restricted net assets at June 30, 2016 are restricted for the use of community outreach and released from restriction during year ended June 30, 2017.

Challenge Preparatory Charter School

Notes to Financial Statements
June 30, 2017 and 2016

9. Commitments

On December 10, 2010, the School entered into a non-cancelable operating lease for office and classroom space at 710 Hartman Lane, Far Rockaway, New York, expiring on May 31, 2032. The lease includes a yearly rent escalation of 3%, and requires the School to pay for utilities and other office costs. The School moved into this facility on April 16, 2012, and it currently houses grades K-5.

On December 5, 2014, the School entered into an agreement to lease additional property at 15-26 Central Avenue, Queens, New York, expiring on May 31, 2026. The lease commenced on September 19, 2015 and includes a yearly rent escalation of 3%, and requires the School to pay for utilities and other office costs. This location became the home of Challenge Preparatory Middle School starting with the 2015-2016 academic year.

On September 29, 2015, the School entered into an agreement to lease additional property at 15-20 Central Avenue, Queens, New York, expiring on July 31, 2038. The lease is projected to commence in July 2019 and includes a yearly rent escalation of 3%, and requires the School to pay for utilities and other office costs. This location will be used for the K-8 expansion program and will house grades 3-5 when the School first occupies the facility.

On June 1, 2017, the School entered into an agreement to lease vacant land at 2429 and 2435 Beach Channel Drive, Queens, New York, expiring on May 31, 2019. The lease commenced on June 15, 2017 and includes a yearly rent escalation of 3%, and requires the School to pay for real estate taxes and other costs. This location will be used to house temporary middle school facilities in transportable classroom units and related parking.

The future minimum lease payments for the four facility leases are as follows:

Year ending June 30, 2018	\$ 1,780,333
2019	3,895,360
2020	3,881,518
2021	3,997,964
2022	4,117,903
Thereafter	<u>63,716,060</u>
	<u>\$ 81,389,138</u>

The School recognizes rent expense on a straight-line basis over the term of the leases. Rent expense in excess of payments is recorded as deferred rent in the accompanying statement of financial position. Occupancy expense under the leases for the years ended June 30, 2017 and 2016 amounted to \$2,102,109 and \$1,770,146.

Challenge Preparatory Charter School

Notes to Financial Statements
June 30, 2017 and 2016

10. Line of Credit

On December 6, 2010, the School established a \$50,000 line of credit with a local financial institution. The line of credit is payable on demand and bears interest at prime rate plus 2.75%. The line of credit is secured by substantially all assets of the School. There was no outstanding balance as of June 30, 2017 and 2016.

11. Contingency

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

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

**Board of Trustees
Challenge Preparatory 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 Challenge Preparatory 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 year then ended, and the related notes to the financial statements, and have issued our report thereon dated September 15, 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 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*.

We noted certain matters that were reported to the management of the School in a separate letter dated September 15, 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.

PKF O'Connor Davies, LLP

Harrison, New York
September 15, 2017

Challenge Preparatory Charter School

Schedule of Findings and Responses
Year Ended June 30, 2017

FINDINGS - FINANCIAL STATEMENT AUDIT

Current Year Findings

During our audit, we noted no material findings for the year ended June 30, 2017

Prior Year Findings

2016-001- Competitive bidding

Condition:

During our tests of three procurement transactions over \$20,000, we noted that the School did not perform competitive bidding procedures on one sample, and one sample was missing one price quote.

Status:

This condition has been corrected in fiscal 2017.

Challenge Preparatory Charter School

Independent Auditors' Report on Communication of
Internal Control Matters Identified in the Audit

June 30, 2017



The Board of Trustees Challenge Preparatory Charter School

In planning and performing our audit of the financial statements of Challenge Preparatory Charter School (the "School") as of and for the year ended June 30, 2017, in accordance with auditing standards generally accepted in the United States of America, we considered the School's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control. Accordingly, we do not express an opinion on the effectiveness of the School's internal control.

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

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

We have other observations and recommendations that are opportunities for strengthening internal control and/or operating efficiency, presented in Addendum A to this letter

This communication is intended solely for the information and use of management, audit committee, board of Trustees, The Department of Education of the City of New York, The State Education Department of the State University of New York, and others within the School, and is not intended to be and should not be used by anyone other than these specified parties.

We would like to take this opportunity to acknowledge the courtesy and assistance extended to us by the personnel of the School during the course of our audit.

PKF O'Connor Davies, LLP
September 15, 2017

Addendum A

Other Observations and Recommendations for Strengthening Internal Control and/or Operating Efficiency

1. Capital Assets

During our audit we noted that the School made improvement with maintaining a complete inventory listing of property and equipment, by tagging and inventorying all fixed assets. However, a portion of the fixed asset schedule maintained by the finance personnel could not be traced to the inventory listing maintained by the operations personnel.

To ensure all property and equipment are properly accounted for, we recommend that the fixed asset schedule maintained by the finance personnel be reconciled with the inventory listing maintained by the operations personnel on a regular basis, at least annually.