

**Democracy Preparatory
Harlem Charter School**

Financial Statements

June 30, 2017 and 2016

Independent Auditors' Report

Board of Trustees Democracy Preparatory Harlem Charter School

We have audited the accompanying financial statements of Democracy 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 year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the School as of June 30, 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 October 31, 2016.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 27, 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
October 27, 2017

Democracy Preparatory Harlem 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	\$ 2,459,612	\$ 2,938,117
Grants and contracts receivable	845,375	584,692
Prepaid expenses and other current assets	29,535	29,910
Due from related parties	139,674	36,854
Total Current Assets	3,474,196	3,589,573
Property and equipment, net	1,245,119	746,650
Restricted cash	70,521	70,466
	\$ 4,789,836	\$ 4,406,689
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable and accrued expenses	\$ 530,640	\$ 433,006
Accrued payroll and payroll taxes	753,286	445,308
Capital lease obligation	96,660	40,231
Refundable advances	25,641	19,775
Total Current Liabilities	1,406,227	938,320
Capital lease obligation, less current portion	312,699	8,611
Total Liabilities	1,718,926	946,931
Net Assets		
Unrestricted		
Undesignated	2,570,633	2,959,460
Board-designated	481,902	481,902
Total Unrestricted	3,052,535	3,441,362
Temporarily restricted	18,375	18,396
Total Net Assets	3,070,910	3,459,758
	\$ 4,789,836	\$ 4,406,689

See notes to financial statements

Democracy Preparatory Harlem 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	\$ 13,775,830	\$ -	\$ 13,775,830	\$ 11,722,972
Federal grants	606,537	-	606,537	656,876
State and city grants	78,680	-	78,680	62,609
Contributions and grants	600	25,000	25,600	26,647
Interest and other income	4,755	-	4,755	1,262
Net assets released from restriction	<u>25,021</u>	<u>(25,021)</u>	<u>-</u>	<u>-</u>
Total Revenue and Support	<u>14,491,423</u>	<u>(21)</u>	<u>14,491,402</u>	<u>12,470,366</u>
EXPENSES				
Program Services				
Regular education	10,701,623	-	10,701,623	9,163,725
Special education	<u>2,078,000</u>	<u>-</u>	<u>2,078,000</u>	<u>1,424,537</u>
Total Program Services	12,779,623	-	12,779,623	10,588,262
Supporting Services				
Management and general	<u>2,100,627</u>	<u>-</u>	<u>2,100,627</u>	<u>1,882,104</u>
Total Expenses	<u>14,880,250</u>	<u>-</u>	<u>14,880,250</u>	<u>12,470,366</u>
Change in Net Assets	(388,827)	(21)	(388,848)	-
NET ASSETS				
Beginning of Year	<u>3,441,362</u>	<u>18,396</u>	<u>3,459,758</u>	<u>3,459,758</u>
End of Year	<u>\$ 3,052,535</u>	<u>\$ 18,375</u>	<u>\$ 3,070,910</u>	<u>\$ 3,459,758</u>

See notes to financial statements

Democracy Preparatory Harlem 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		Total	Management and General	Total	Total
Regular Education	Special Education					
Salaries	\$ 6,137,440	\$ 1,220,237	\$ 7,357,677	\$ 978,481	\$ 8,336,158	\$ 7,121,270
Employee benefits and payroll taxes	1,157,490	230,130	1,387,620	184,536	1,572,156	1,337,799
Professional fees	82,089	14,454	96,543	41,375	137,918	90,211
Management fees	1,050,011	184,878	1,234,889	529,238	1,764,127	1,172,286
Audit fees	-	-	-	23,000	23,000	20,250
Professional development	153,279	30,475	183,754	24,436	208,190	113,233
Marketing and recruiting	-	-	-	24,035	24,035	31,943
Instructional materials and office supplies	1,034,789	182,199	1,216,988	-	1,216,988	1,279,322
Food services	17,313	3,048	20,361	-	20,361	30,874
Insurance	53,766	10,690	64,456	8,572	73,028	61,934
Repairs and maintenance	157,150	31,244	188,394	25,054	213,448	39,352
Facility expense	424,399	84,378	508,777	67,661	576,438	549,370
Printing and postage	-	-	-	4,333	4,333	3,722
Telephone and communication	175,010	34,795	209,805	27,901	237,706	273,598
Travel	-	-	-	83,869	83,869	71,633
Depreciation and amortization	258,887	51,472	310,359	41,274	351,633	218,392
Miscellaneous	-	-	-	36,862	36,862	55,177
Total	\$ 10,701,623	\$ 2,078,000	\$ 12,779,623	\$ 2,100,627	\$ 14,880,250	\$ 12,470,366

See notes to financial statements

Democracy Preparatory Harlem Charter School

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

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (388,848)	\$ -
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation and amortization	351,633	218,392
Changes in operating assets and liabilities		
Grants and contracts receivable	(260,683)	(296,133)
Prepaid expenses and other current assets	375	(6,794)
Due from related parties	(102,820)	300,931
Accounts payable and accrued expenses	97,634	(42,384)
Accrued payroll and payroll taxes	307,978	73,834
Refundable advances	5,866	(9,942)
Net Cash from Operating Activities	11,135	237,904
 CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(369,321)	(399,365)
Restricted cash	(55)	(71)
Net Cash from Investing Activities	(369,376)	(399,436)
 CASH FLOWS FROM FINANCING ACTIVITY		
Payments made on capital lease obligation	(120,264)	(36,307)
Net Change in Cash and Cash Equivalents	(478,505)	(197,839)
 CASH AND CASH EQUIVALENTS		
Beginning of year	2,938,117	3,135,956
End of year	\$ 2,459,612	\$ 2,938,117
 SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the year for interest	\$ 37,216	\$ 7,692
 Supplemental Schedule of Noncash Investing and Financing Activities		
Computers and equipment acquired under capital leases	480,780	13,935

Democracy Preparatory Harlem Charter School

Notes to Financial Statements
June 30, 2017 and 2016

1. Organization and Tax Status

Democracy Preparatory Harlem Charter School (the "School") is a New York State, not-for-profit educational corporation that was incorporated 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 for an additional four term expiring on June 30, 2019. The School's purpose is to educate students by providing them with a demanding academic program that prepares them for success in college and citizenship. Classes commenced in Harlem, New York, in September 2010, and the School provided education to approximately 887 students in kindergarten through third and sixth through twelfth grades 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.

Democracy Preparatory Harlem Charter School

Notes to Financial Statements
June 30, 2017 and 2016

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

Net Asset 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. Board designated net assets was established by the Board of Trustees for the Dream Dollar Scholarship Fund which is a college scholarship fund for students who graduate from the School.

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.

Democracy Preparatory Harlem 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 \$1,000 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	3 and 5 years
Software	3 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.

Democracy Preparatory Harlem 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.

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 October 27, 2017.

Effective July 1, 2017, The School, Democracy Preparatory Charter School and Harlem Prep Charter School merged into a single legal entity under Bronx Preparatory Charter School. The School, Democracy Preparatory Charter School and Harlem Prep Charter School were dissolved and ceased to exist as legal entities in conjunction with the merger effective date. The plan of merger was approved by the New York State Board of Regents on April 4, 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.

Democracy Preparatory Harlem 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:

	2017	2016
Furniture and fixtures	\$ 341,847	\$ 240,970
Computers and equipment	1,684,702	995,097
Software	12,376	12,376
Leasehold improvements	251,668	192,049
	<u>2,290,593</u>	<u>1,440,492</u>
Accumulated depreciation and amortization	<u>(1,045,474)</u>	<u>(693,842)</u>
	<u>\$ 1,245,119</u>	<u>\$ 746,650</u>

5. Related Party Transactions (not disclosed elsewhere)

Democracy Prep Harlem Charter School (“DPH”) is affiliated with five charter schools: Democracy Preparatory Charter School (“DPCS”), Democracy Preparatory Endurance Charter School (“DPE”), Harlem Prep Charter School (“HPCS”), and Bronx Preparatory Charter School (“BPCS”), all New York State not-for-profit organizations. Democracy Prep Congress Heights (“DPCH”) is a Washington, DC not-for-profit organization. All are managed by Democracy Prep Public Schools (“DPPS”).

The School is an affiliate of DPPS, a New York State not-for-profit charter management organization. The School entered into a management agreement with DPPS to assume responsibility for the School’s educational process, management, and operations. As compensation to DPPS for these services rendered, the School shall pay to DPPS an annual fee equal to 15% of the School’s non-competitive public revenue in the initial term. The initial term is for one year beginning July 1, 2010 and ending June 30, 2011. The percentage will decrease by one-half percent (0.5%) in each renewal term until it reaches a minimum of 12% of the non-competitive public revenue of the School and will remain in effect for all subsequent renewal terms. Following the initial term, the agreement will automatically extend for successive one-year periods unless terminated by either party. The percentage will decrease by one-half percent (0.5%) in each renewal term until it reaches a minimum of 12% of the non-competitive public revenue of the School and will remain in effect for all subsequent renewal terms. Following the initial term, the agreement will automatically extend for successive one-year periods unless terminated by either party. For the years ended June 30, 2017 and 2016, DPPS charged an annual management fee to the School of 12% and 12.5%, respectively. On July 1, 2015, the School and DPPS amended the management agreement to include a provision which states that in the event the School incurs an operating deficit due to management fees charged, the management fees will be reduced to an amount that would result in a zero change in net assets. For the years ended June 30, 2017 and 2016, management fees charged by DPPS were reduced by \$0 and \$342,236 to reduce the operating deficit to zero. For the years ended June 30, 2017 and 2016, the School incurred \$1,764,127 and \$1,172,286 in management fees, respectively.

Democracy Preparatory Harlem Charter School

Notes to Financial Statements
June 30, 2017 and 2016

5. Related Party Transactions (not disclosed elsewhere) (continued)

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

	2017	2016
HPCS	\$ 349	\$ 1,668
DPE	(145)	(145)
BPCS	(309)	-
DPPS	389,902	270,710
DPCS	(250,123)	(235,379)
Net balance due from related parties	\$ 139,674	\$ 36,854

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 \$2,210,000 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 support and revenue from the New York City Department of Education. For the years ended June 30, 2017 and 2016, the School received approximately 95% and 94% 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 consists of the following at June 30:

	2017	2016
Korean dual language program	\$ 18,375	\$ 17,796
After school cooking classes	-	600
	\$ 18,375	\$ 18,396

Democracy Preparatory Harlem Charter School

Notes to Financial Statements
June 30, 2017 and 2016

8. Temporarily Restricted Net Assets *(continued)*

Net assets for the years ended June 30, 2017 and 2016, were released from donor restrictions by satisfying the purpose specified by donor as follows:

	2017	2016
Korean dual language program	\$ 9,421	\$ 8,947
Field trips and classroom incentives	-	3,450
Gym floor installation	15,000	-
After school cooking classes	600	-
	\$ 25,021	\$ 12,397

9. Commitments

Effective July 1, 2012, the School entered into a sub-sublease agreement with Democracy Preparatory Charter School (“DPCS”) (a related party, see Note 5) for use of office and classroom facilities at St. Philips Church (207 West 133rd Street). The rent payments are based on a fraction, determined annually for each rent year and expressed as a percentage, the numerator of which is the number of students of the School during the rent year, and the denominator of which is the aggregate number of students at both the School and DPCS during the rent year. The number of students is determined by the New York City Department of Education as of the end of the Rent Year for purposes of reconciling school funding allocations. The School is also responsible for utilities and other building costs. The term shall end earlier of December 31, 2029, or the date on which the sub-sublease agreement is terminated by either party.

Rent expense under this sub-sublease agreement was \$535,279 and \$529,327 for the years ended June 30, 2017 and 2016, respectively.

The School does not recognize rent expense on a straight-line basis over the life of the sub-sublease and disclose the minimum future rent payments to be paid due to the undetermined number of future students served.

10. Capital Lease Obligation

The School leases computers and equipment under capital leases that expire at various dates through June 2021. The asset and liability under the capital lease are recorded at the present value of the minimum lease payments. The asset is being depreciated over its estimated useful life.

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

	2017	2016
Computers and equipment	\$ 593,129	\$ 112,349
Accumulated depreciation	(198,005)	(64,400)
	\$ 395,124	\$ 47,949

Democracy Preparatory Harlem Charter School

Notes to Financial Statements
June 30, 2017 and 2016

10. Capital Lease Obligation *(continued)*

The future minimum lease payments are as follows:

For the year ending June 30,	2018	\$	124,752
	2019		116,703
	2020		116,258
	2021		116,258
Total minimum lease payments			473,971
Amounts representing interest			(64,612)
Present value of minimum lease payments			409,359
Current portion			(96,660)
Capital lease obligation, less current portion		\$	<u>312,699</u>

11. Employee Benefit Plan

The School maintains a retirement plan qualified under Internal Revenue Code 403(b) for the benefit of its eligible employees. Under the plan, the School provided matching contributions up to 5% of the participant's annual compensation. Employer match for the years ended June 30, 2017 and 2016 amounted to \$228,290 and \$221,862.

12. 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.

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
Democracy 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 Democracy Preparatory Harlem Charter School (the "School") (a not-for-profit corporation), 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 ended, and the related notes to the financial statements, and have issued our report thereon dated October 27, 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. 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 October 27, 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
October 27, 2017