

# **Harlem Link Charter School**

Financial Statements

June 30, 2017 and 2016

## Independent Auditors' Report

### **Board of Trustees Harlem Link Charter School**

We have audited the accompanying financial statements of Harlem Link 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 20, 2016.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 18, 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 18, 2017

## Harlem Link Charter School

### Statement of Financial Position

June 30, 2017

(with comparative amounts at June 30, 2016)

	<u>2017</u>	<u>2016</u>
<b>ASSETS</b>		
Current Assets		
Cash and cash equivalents	\$ 1,705,983	\$ 1,101,136
Grants and contracts receivable	347,848	550,563
Pledges receivable	125,000	-
Prepaid expenses and other current assets	<u>27,292</u>	<u>73,191</u>
Total Current Assets	2,206,123	1,724,890
Property and equipment, net	82,474	76,770
Restricted cash	<u>75,222</u>	<u>75,200</u>
	<u>\$ 2,363,819</u>	<u>\$ 1,876,860</u>
<b>LIABILITIES AND NET ASSETS</b>		
Current Liabilities		
Accounts payable and accrued expenses	\$ 143,704	\$ 100,446
Accrued payroll and payroll taxes	421,559	394,060
Loan payable	-	139,321
Refundable advances	<u>15,079</u>	<u>-</u>
Total Liabilities	<u>580,342</u>	<u>633,827</u>
Net Assets		
Unrestricted	1,658,477	1,243,033
Temporarily restricted	<u>125,000</u>	<u>-</u>
Total Net Assets	<u>1,783,477</u>	<u>1,243,033</u>
	<u>\$ 2,363,819</u>	<u>\$ 1,876,860</u>

See notes to financial statements

**Harlem Link 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
<b>OPERATING REVENUE</b>				
Public School District				
Regular student enrollment	\$ 5,250,274	\$ -	\$ 5,250,274	\$ 4,640,833
Students with disabilities	925,305	-	925,305	493,845
Universal pre-kindergarten	382,661	-	382,661	334,036
Grants and Contracts				
Federal - E-Rate, IDEA, and Titles	248,207	-	248,207	173,512
State and local	-	-	-	24,403
Total Operating Revenue	<u>6,806,447</u>	<u>-</u>	<u>6,806,447</u>	<u>5,666,629</u>
<b>EXPENSES</b>				
Program Services				
Regular education	4,568,867	-	4,568,867	4,560,630
Special education	<u>1,071,661</u>	<u>-</u>	<u>1,071,661</u>	<u>506,048</u>
Total Program Services	5,640,528	-	5,640,528	5,066,678
Supporting Services				
Management and general	836,686	-	836,686	830,691
Fundraising	<u>86,646</u>	<u>-</u>	<u>86,646</u>	<u>136,583</u>
Total Expenses	<u>6,563,860</u>	<u>-</u>	<u>6,563,860</u>	<u>6,033,952</u>
Surplus (Deficit) from Operations	<u>242,587</u>	<u>-</u>	<u>242,587</u>	<u>(367,323)</u>
<b>SUPPORT AND OTHER REVENUE</b>				
Contributions				
Foundations	105,022	125,000	230,022	90,007
Individuals	58,576	-	58,576	82,081
Corporations	163	-	163	2,250
Other income	<u>9,096</u>	<u>-</u>	<u>9,096</u>	<u>5,631</u>
Total Support and Other Revenue	<u>172,857</u>	<u>125,000</u>	<u>297,857</u>	<u>179,969</u>
Change in Net Assets	415,444	125,000	540,444	(187,354)
<b>NET ASSETS</b>				
Beginning of year	<u>1,243,033</u>	<u>-</u>	<u>1,243,033</u>	<u>1,430,387</u>
End of year	<u>\$ 1,658,477</u>	<u>\$ 125,000</u>	<u>\$ 1,783,477</u>	<u>\$ 1,243,033</u>

**Harlem Link 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			Supporting Services		Total	Total
	Regular Education	Special Education	Total	Management and General	Fundraising		
Personnel services costs							
Administrative staff personnel	\$ 700,256	\$ 164,258	\$ 864,514	\$ 536,471	\$ 68,125	\$ 1,469,110	\$ 1,295,642
Instructional personnel	2,494,366	585,098	3,079,464	-	-	3,079,464	2,893,477
Total salaries and staff	3,194,622	749,356	3,943,978	536,471	68,125	4,548,574	4,189,119
Fringe benefits and payroll taxes	728,442	170,869	899,311	122,330	15,533	1,037,174	891,146
Legal services	-	-	-	11,563	-	11,563	5,337
Accounting/audit services	-	-	-	22,250	-	22,250	25,250
Other purchased/professional/consulting services	274,425	64,371	338,796	51,937	-	390,733	213,457
Insurance	31,952	7,495	39,447	5,367	681	45,495	38,520
Instructional materials	4,767	1,113	5,880	-	-	5,880	23,192
Classroom and office supplies	108,648	25,485	134,133	20,563	-	154,696	240,602
Non-capitalized equipment/technology	29,680	6,962	36,642	4,984	633	42,259	29,823
Professional development	63,718	14,946	78,664	12,059	-	90,723	139,395
Marketing and recruitment	15,172	3,544	18,716	6,239	-	24,955	61,016
Telephone and internet	9,745	2,286	12,031	1,637	208	13,876	18,734
Staff lunches and team building	43,188	10,131	53,319	7,252	921	61,492	65,447
Student meals	14,461	3,378	17,839	-	-	17,839	14,033
Postage, printing, and shipping	13,415	3,133	16,548	5,516	-	22,064	22,489
Travel and conference	-	-	-	7,427	-	7,427	16,099
Maintenance and repairs	11,090	2,601	13,691	2,102	-	15,793	3,181
Depreciation and amortization	25,542	5,991	31,533	4,289	545	36,367	20,895
Miscellaneous	-	-	-	14,700	-	14,700	16,217
Total	<u>\$ 4,568,867</u>	<u>\$ 1,071,661</u>	<u>\$ 5,640,528</u>	<u>\$ 836,686</u>	<u>\$ 86,646</u>	<u>\$ 6,563,860</u>	<u>\$ 6,033,952</u>

See notes to financial statements

## Harlem Link Charter School

### Statement of Cash Flows

Year Ended June 30, 2017

(with comparative amounts for the year ended June 30, 2016)

	2017	2016
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 540,444	\$ (187,354)
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation and amortization	36,367	20,895
Changes in operating assets and liabilities		
Grants and contracts receivable	202,715	(432,597)
Pledges receivable	(125,000)	-
Prepaid expenses and other current assets	45,899	(20,968)
Accounts payable and accrued expenses	43,258	(42,874)
Accrued payroll and payroll taxes	27,499	26,120
Refundable advances	15,079	-
Net Cash from Operating Activities	786,261	(636,778)
 <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of property and equipment	(42,071)	(66,692)
Restricted cash	(22)	(23)
Net Cash from Investing Activities	(42,093)	(66,715)
 <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Loan payment	(139,321)	-
Cash proceeds from loan payable	-	139,321
Net Cash from Financing Activities	(139,321)	139,321
 Net Change in Cash and Cash Equivalents	604,847	(564,172)
 <b>CASH AND CASH EQUIVALENTS</b>		
Beginning of year	1,101,136	1,665,308
End of year	\$ 1,705,983	\$ 1,101,136

See notes to financial statements

## Harlem Link Charter School

Notes to Financial Statements  
June 30, 2017 and 2016

### 1. Organization and Tax Status

Harlem Link Charter School (the "School") is a New York State, not-for-profit educational corporation that was incorporated on September 10, 2004 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 September 10, 2004, 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 Board of Regents approved and issued several renewals to the School's charter expiring on July 31, 2018. The School's mission is to provide its students with a solid foundation for academic success. The School provided education to approximately 362 students in kindergarten through fifth grade in the 2016-2017 academic year.

Beginning in July 2015, the School was awarded a contract with the New York City Department of Education to operate a universal pre-kindergarten program. The initial contract commenced July 1, 2015 and expires on June 30, 2018. The initial contract is renewable for two additional years at the option of the New York City Department of Education. The School provided education to approximately 36 students in the 2016-2017 academic year.

The School shares space with a New York City public school beginning in May 2005. The School is not responsible for rent, utilities, custodial services, maintenance and school safety services other than security related to the School's programs that take place outside the district's school day. The School was unable to determine a value for the contributed space and related services and did not record any value for the use of donated facilities.

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.



## Harlem Link Charter School

Notes to Financial Statements  
June 30, 2017 and 2016

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

#### ***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 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.

## Harlem Link 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. 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.

## Harlem Link 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 as of and 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 18, 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.

## Harlem Link 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>
Furniture and fixtures	\$ 60,195	\$ 60,195
Computers and equipment	354,372	312,301
Software	<u>25,345</u>	<u>25,345</u>
	439,912	397,841
Accumulated depreciation and amortization	<u>(357,438)</u>	<u>(321,071)</u>
	<u>\$ 82,474</u>	<u>\$ 76,770</u>

### 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 is not required to, but at its discretion can match employee contributions. For the years ended June 30, 2017 and 2016, the School did not provide for matching contributions.

### 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 \$1,380,000 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 92% 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.

**Harlem Link Charter School**

Notes to Financial Statements  
June 30, 2017 and 2016

**8. Temporarily Restricted Net Assets**

Temporarily restricted net assets at June 30, 2017 were restricted due to timing as the related receivable is expected to be collected in fiscal 2018.

**9. Commitment**

The School leases office copiers under a non-cancelable operating lease expiring in April 2022. The future minimum lease payments under the copier lease are as follows:

Year ending June 30, 2018	\$ 27,600
2019	27,600
2020	27,600
2021	27,600
2022	<u>23,000</u>
	<u>\$ 133,400</u>

**10. Loan Payable**

On November 24, 2015, the School obtained an interest-free loan in the amount of \$139,321 from the Fund for the City of New York. The loan was used to fund early operating expenses for the universal pre-kindergarten program (see Note 1). For the years ended June 30, 2017 and 2016, the outstanding principal balance of this loan was \$0 and \$139,321.

**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.

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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  
Harlem Link Charter School**

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Harlem Link 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 October 18, 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. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses as items 2017-001, 2017-002 and 2017-003 that we consider to be significant deficiencies.

***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 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 items 2017-002 and 2017-003.

***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 identified certain matters that we reported to the management of the School in a separate letter dated October 18, 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 18, 2017

## Harlem Link Charter School

### Schedule of Findings and Responses Year Ended June 30, 2017

#### **Financial Statement Findings**

##### **2017-001- Credit Card Transactions**

###### **Criteria**

The fiscal policies and procedures manual (FPP) states that all credit card transactions should be supported by receipts or other supporting documentation.

###### **Condition**

A substantial portion of charges were not supported by receipts or other supporting documentation, missing approvals, and instances where sales tax was paid to vendors.

###### **Cause**

This condition is caused by lack of oversight over credit card transactions.

###### **Effect**

Lack of control over credit card transactions could result in the payment of unauthorized expenses.

###### **Recommendation**

The School should support all credit card charges with receipts, invoices, or other supporting documentation. The School should also enforce the approval process for credit card charges by authorized School personnel. The School should document in writing all decisions that are not consistent with its FPP and consideration should also be given to modifying the FPP when appropriate and practical.

The School is a 501(c)(3) organization that is generally exempt from payment of sales and use tax on its purchases. We recommend that the Director of Finance review all invoices to ensure that there is no sales tax being charged. The School may be entitled to a refund of sales tax previously paid by using NYS Form AU-11 to request a refund of taxes paid.

###### **Views of Responsible Officials**

The School has retained outside consultants to review all credit card transactions to ensure proper documentation and approvals in accordance with Harlem Link's FPP. School management and the Board of Trustees will review the FPP, and modify it if appropriate, to ensure that the School is following best practices in relation to the use and control of the School credit card.

School management believes that any sales tax paid through the credit card is de minimis. However, as all charges are reviewed, the School will request refunds of any sales taxes paid through the card.



## Harlem Link Charter School

Schedule of Findings and Responses (Continued)  
Year Ended June 30, 2017

### **Compliance Findings**

#### **2017-002- Maintenance of Student Records**

##### **Criteria**

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

##### **Condition**

The following exceptions were identified during our test of 25 student files:

- Two student files could not be located by the School
- Eight files were missing proof of residency
- Five files were missing immunization records
- Three files were missing prior school records
- Two files were missing birth certificates
- One file was missing application for admission
- One file was missing home language and ethnic forms

##### **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 FPP 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 checklist be utilized to insure that information is complete and up to date for each student file. A log book should be maintained to track any files that are removed from the cabinet.

##### **Views of Responsible Officials**

The School has retained outside consultants to review existing student files to ensure complete documentation, and to obtain any missing information. The School will ensure that completion of the information checklist will be an integral part of the student enrollment process. The student files will be reviewed regularly during the year. The School will maintain a log of any student files removed from the primary storage area.

## Harlem Link Charter School

Schedule of Findings and Responses (Continued)  
Year Ended June 30, 2017

### **Compliance Findings (continued)**

#### **2017-003- Maintenance of Employee Records**

##### **Criteria**

Appropriate employee records should be properly maintained in employee files.

##### **Condition**

The following exceptions were identified during our test of 15 employee files:

- Eight employee files did not contain a fingerprint clearance form
- Four employee files contained a pay rate different than stated on the employment agreement
- One I-9 form could not be located

##### **Cause**

This condition is caused by management's lack of oversight over the employee file maintenance.

##### **Effect**

The School is not in compliance with its FPP and with City and State laws and regulations.

##### **Recommendation**

In an effort to ensure that employee records are complete, we recommend that the School's checklist be utilized to insure that information is complete and up to date for each employee file.

##### **Views of Responsible Officials**

The School has retained an outside consultant to review existing employee files to ensure complete documentation, and to obtain any missing information. The School will ensure that completion of the information checklist will be an integral part of the employee hiring process. The employee files will be reviewed regularly during the year. The School will maintain a log of any employee files removed from the primary storage area.



October 18, 2017

To the Board of Trustees  
Harlem Link Charter School

Re: Auditors' Communication with Those Charged with Governance

We have audited the financial statements of Harlem Link Charter School (the "School") as of and for the year ended June 30, 2017, and have issued our report thereon dated October 18, 2017. Professional standards require that we provide you with information about our responsibilities under auditing standards generally accepted in the United States of America and Government Auditing Standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter to you dated March 31, 2017. This letter provides additional required communications related to our audit.

### **Our responsibility under professional standards**

Our responsibility is to form and express an opinion about whether the financial statements, which are the responsibility of management, are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America ("US GAAP"). Those individuals charged with governance of the School are responsible for the oversight of the financial reporting process, and our audit does not relieve management and those charged with governance of their respective responsibilities.

In connection with our audit we performed tests of the School's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

### **Qualitative aspects of significant accounting practices**

#### *Significant accounting policies*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the School are described in Note 2 to the financial statements. There have been no initial selection of accounting policies and no changes in significant accounting policies or their application during the reporting period that had a significant impact on the financial statements. No matters have come to our attention that would require us to inform you about (1) the methods used to account for significant unusual transactions, and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

## **Qualitative aspects of significant accounting practices (continued)**

### *Significant accounting estimates*

Accounting estimates made by management are an integral part of the financial statements and are based on management's knowledge and experience about past and current events and assumptions about future events. Actual results could differ from those estimates.

Certain accounting estimates are particularly sensitive because of their significance to financial statements and their susceptibility to change, such as collectability of grants receivable, useful lives of fixed assets, and functional allocation of expenses. Management believes that the estimates used and assumptions made are adequate based on the information currently available. We evaluated the key factors and assumptions used to develop the estimates in determining that they are reasonable in relation to the financial statements as a whole.

### *Financial statement disclosures*

The financial statement disclosures are consistent and clear.

## **Significant difficulties encountered during the audit**

We encountered no significant difficulties in dealing with management relating to the performance of the audit.

## **Uncorrected and corrected misstatements**

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management.

We are required to communicate to you misstatements that remain uncorrected, including any related to prior periods, and the effect, if any, that they may have on the opinion in our report, and request their correction. There are no such financial statement misstatements that remain uncorrected.

In addition, we are required to communicate to you all material, corrected misstatements that were brought to the attention of management as a result of our audit procedures. Our audit did not identify misstatements that were corrected by management.

## **Disagreements with management**

For purposes of this letter, a disagreement with management is a matter, whether or not resolved to our satisfaction, concerning financial accounting, reporting, or auditing, which could be significant to the financial statements or the auditors' report. No such disagreements arose during the course of the audit.

## **Management's consultations with other accountants**

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

### **Other matters discussed with management**

We generally discuss with management a variety of matters, including the application of accounting principles and auditing standards, business conditions affecting the School, and business plans and strategies that may affect the risks of material misstatement. None of the matters discussed and our responses thereto were a condition to our retention as auditors.

### **Auditor independence**

We affirm that PKF O'Connor Davies, LLP is independent with respect to the School in accordance with the AICPA's *Code of Professional Conduct*.

This communication is intended solely for the information and use of the Board of Trustees and management of the School and is not intended to be and should not be used by anyone other than these specified parties.

Yours sincerely,

*PKF O'Connor Davies, LLP*

**PKF O'Connor Davies, LLP**

# **Harlem Link Charter School**

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

June 30, 201

**The Board of Trustees**  
**Harlem Link Charter School**

In planning and performing our audit of the financial statements of Harlem Link 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

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. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

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. We consider the deficiencies in the School's internal control presented in Addendum A to this letter to be significant deficiencies.

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

This communication is intended solely for the information and use of management, audit committee, board of Trustees, The Charter School Institute of the State University 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*  
October 18, 2017

## Harlem Link Charter School

### Addendum A

#### Deficiencies in Internal Control that We Consider to be Significant Deficiencies

##### 1. Credit Card Transactions (Prior Year Comment)

During our test of credit card transactions, we noted that a substantial portion of charges were not supported by receipts or other supporting documentation, missing approvals, and instances where sales tax was paid to vendors.

The School should support all credit card charges with receipts, invoices, or other backup documentation. The School should also enforce the approval process for credit card charges by authorized School personnel. The School should document in writing all decisions that are not consistent with its FPP and consideration should also be given to modifying the FPP when appropriate and practical.

##### 2. Maintenance of Student Records (Prior Year Comment)

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

- Two student files could not be located by the School
- Eight files were missing proof of residency
- Five files were missing immunization records
- Three files were missing prior school records
- Two files were missing birth certificates
- One file was missing application for admission
- One file was missing home language and ethnic forms

In an effort to ensure that student records are complete, we recommend that the School's checklist should 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 from the cabinet.

##### 3. Maintenance of Employee Records (Prior Year Comment)

We noted the following exceptions during our test of 15 employee files:

- Eight employee files did not contain a fingerprint clearance form.
- Four employee files contained a pay rate different than stated on the employment agreement.
- One I-9 form could not be located.

In an effort to ensure that employee records are complete, we recommend that the School's checklist should be utilized periodically to insure that information is complete and updated for each employee file.



## Harlem Link Charter School

### Addendum B

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

##### **1. Maintenance of Capital Asset Records (Prior Year Comment)**

Although the School maintains a detail listing of property and equipment, the School did not identify, tag and inventory all fixed assets. In addition, there is no clear trail from the manual physical inventory to the fixed asset ledger maintained in the books and records. The school has attempted to create and maintain an internal detailed inventory of capital assets, but has never completed the process. Efforts have been in process for several years.

All fixed asset acquisitions should be identified, tagged and entered into a detailed fixed asset ledger. Tags should be placed in a visible area and there should be a clear trail of tracing the capital asset to the fixed asset ledger maintained by the School. On an annual basis, the School should take a physical inventory of all capital assets to ensure the completeness and accuracy of the School's records. Fixed asset ledger should contain a clear trail to the inventory listing.