

NEIGHBORHOOD CHARTER SCHOOL OF HARLEM

NEW YORK, NEW YORK

AUDITED CONSOLIDATED FINANCIAL STATEMENTS

OTHER CONSOLIDATING FINANCIAL INFORMATION

REPORT REQUIRED BY
GOVERNMENT AUDITING STANDARDS

AND

INDEPENDENT AUDITOR'S REPORTS

JUNE 30, 2017

(With Comparative Totals for 2016)



MENGEL METZGER BARR & CO. LLP

Certified Public Accountants

CONTENTS

<u>AUDITED CONSOLIDATED FINANCIAL STATEMENTS</u>	<u>PAGE</u>
Independent Auditor's Report	3
Consolidated Statement of Financial Position	5
Consolidated Statement of Activities and Changes in Net Assets	6
Consolidated Statement of Functional Expenses	7
Consolidated Statement of Cash Flows	8
Notes to Consolidated Financial Statements	9
 <u>OTHER CONSOLIDATING FINANCIAL INFORMATION</u>	
Independent Auditor's Report on Consolidating Financial Information	16
Consolidating Statement of Financial Position	17
Consolidating Statement of Activities and Changes in Net Assets	18
 <u>REPORT REQUIRED BY GOVERNMENT AUDITING STANDARDS</u>	
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	20
Schedule of Findings and Responses	22

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Neighborhood Charter School of Harlem

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Neighborhood Charter School of Harlem, which comprise the consolidated statement of financial position as of June 30, 2017, and the related consolidated statements of activities and changes in net assets, 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 consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free from material misstatement.

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

Report on Summarized Comparative Information

We have previously audited Neighborhood Charter School of Harlem's consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated October 13, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016 is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Other Report Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 24, 2017 on our consideration of Neighborhood Charter School of Harlem'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 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 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 Neighborhood Charter School of Harlem's internal control over other financial reporting and compliance.

Mengel, Metzger, Baw & Co. LLP

Rochester, New York
October 24, 2017

NEIGHBORHOOD CHARTER SCHOOL OF HARLEM
CONSOLIDATED STATEMENT OF FINANCIAL POSITION

JUNE 30, 2017
(With Comparative Totals for 2016)

<u>ASSETS</u>	June 30,	
	2017	2016
<u>CURRENT ASSETS</u>		
Cash	\$ 4,586,635	\$ 2,848,087
Cash - capital reserve	235,000	1,035,000
Grants and other receivables	267,417	105,686
Prepaid expenses and other current assets	66,431	63,885
TOTAL CURRENT ASSETS	5,155,483	4,052,658
<u>OTHER ASSETS</u>		
Property and equipment, net	242,623	315,316
Deposits	1,060,000	260,000
Cash in escrow	75,000	75,000
	1,377,623	650,316
TOTAL ASSETS	\$ 6,533,106	\$ 4,702,974
<u>LIABILITIES AND NET ASSETS</u>		
<u>CURRENT LIABILITIES</u>		
Accounts payable and accrued expenses	\$ 314,422	\$ 153,627
Accrued payroll and benefits	403,334	275,488
Deferred revenue	-	13,211
TOTAL CURRENT LIABILITIES	717,756	442,326
<u>NET ASSETS</u>		
Unrestricted	5,580,350	3,211,836
Unrestricted - board designated	235,000	1,035,000
Temporarily restricted	-	13,812
TOTAL NET ASSETS	5,815,350	4,260,648
TOTAL LIABILITIES AND NET ASSETS	\$ 6,533,106	\$ 4,702,974

The accompanying notes are an integral part of the consolidated financial statements.

NEIGHBORHOOD CHARTER SCHOOL OF HARLEM

CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

YEAR ENDED JUNE 30, 2017
(With Comparative Totals for 2016)

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Year ended June 30,</u>	
			<u>2017</u>	<u>2016</u>
Operating revenue and support:				
State and local per pupil operating revenue	\$ 9,675,478	\$ -	\$ 9,675,478	\$ 7,803,162
Federal and State grants	654,454	-	654,454	489,382
Contributions	25,989	-	25,989	51,065
Special events	-	-	-	3,624
Other income	41,406	-	41,406	76,298
Net assets released from restriction	<u>13,812</u>	<u>(13,812)</u>	<u>-</u>	<u>-</u>
TOTAL OPERATING REVENUE AND SUPPORT	10,411,139	(13,812)	10,397,327	8,423,531
Expenses:				
Program services:				
Regular education	5,166,191	-	5,166,191	4,232,534
Special education	3,349,897	-	3,349,897	2,569,757
Supporting services:				
Management and general	325,450	-	325,450	339,695
Fundraising and special events	<u>1,087</u>	<u>-</u>	<u>1,087</u>	<u>3,265</u>
TOTAL EXPENSES	<u>8,842,625</u>	<u>-</u>	<u>8,842,625</u>	<u>7,145,251</u>
CHANGE IN NET ASSETS	1,568,514	(13,812)	1,554,702	1,278,280
Net assets at beginning of year	<u>4,246,836</u>	<u>13,812</u>	<u>4,260,648</u>	<u>2,982,368</u>
NET ASSETS AT END OF YEAR	<u>\$ 5,815,350</u>	<u>\$ -</u>	<u>\$ 5,815,350</u>	<u>\$ 4,260,648</u>

The accompanying notes are an integral part of the consolidated financial statements.

NEIGHBORHOOD CHARTER SCHOOL OF HARLEM

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2017
(With Comparative Totals for 2016)

	Year ended June 30,							
	2017							2016
	No. of positions	Program Services			Supporting Services			Total
Regular education		Special education	Sub-total	Fundraising and special events	Management and general	Sub-total		
Personnel services costs:								
Administrative staff personnel	\$ 527,077	\$ 231,771	\$ 758,848	\$ -	\$ 2,775	\$ 2,775	\$ 761,623	\$ 633,753
Instructional personnel		1,433,884		-		100,923	3,276,039	
Non-instructional personnel		89,709						
Total Salaries and wages	1,842,155	1,755,364	3,276,039			103,698		2,542,106
Fringe benefits & payroll taxes	73	192,343	282,052		100,255		382,975	335,097
Retirement	8	2,561,575	4,316,939	668	103,030	19,935	4,420,637	993,376
Legal service	68		461,145	668	19,807	2,125	1,250,251	
Accounting/audit fees		769,171	94,925	668		133,634	-	
Other purchased/professional/consulting services		56,959	128	128	2,111	14,834	97,050	63,371
Building and land rent/lease		136,677	119,908	14	133,634	16,078	271,419	6,950
Repairs and maintenance			287,296	10	15,974	6,214	133,634	6,950,590,000
Insurance			111,769	-	14,824	6,254	734,400	187,462
Utilities		431,026	718,322	-		6,254	734,400	23,187
Supplies/Materials		167,686	279,430	104		739	285,709	
Equipment/Furnishings		19,808	56,169	40		3,180	33,750	151,702
Staff development		85,266	16,001	40	734		145,278	32,579
Marketing/Recruitment		125,665	64,896	5	3,160	890	181,834	142,030
Technology		24,006	27,100	20			40,903	55,767
Food service		106,435	14,816	-	1,208	1,216	174,708	200,928
Office expense		44,614	115,156	6	3,355	829	72,930	
Student services		22,229	66,867	22		3,742	37,874	33,972
Depreciation and amortization		257,634	47,033	8	824		372,790	310,271
Other		100,313	167,180	5			170,922	167,180
		105,225	152,258	5	3,718	5,155	152,258	166,280
		<u>\$ 8,316,191</u>	<u>\$ 3,349,897</u>	<u>\$ 230,834</u>	<u>\$ 1,087</u>	<u>\$ 325,450</u>	<u>\$ 326,537</u>	<u>\$ 7,145,251</u>
		13,691	19,944	33	10,845	30,789	24,576	
				-				

The accompanying notes are an integral part of the consolidated financial statements.

NEIGHBORHOOD CHARTER SCHOOL OF HARLEM

CONSOLIDATED STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2017
(With Comparative Totals for 2016)

	<u>Year ended June 30,</u>	
	<u>2017</u>	<u>2016</u>
<u>CASH FLOWS - OPERATING ACTIVITIES</u>		
Change in net assets	\$ 1,554,702	\$ 1,278,280
Adjustments to reconcile change in net assets to net cash provided from operating activities:		
Depreciation and amortization	235,489	126,280
Changes in certain assets and liabilities affecting operations:		
Grants and other receivables	(161,731)	(53,737)
Prepaid expenses and other current assets	(2,546)	26,069
Accounts payable and accrued expenses	160,795	(15,476)
Accrued payroll and benefits	127,846	21,532
Deferred revenue	(13,211)	7,435
NET CASH PROVIDED FROM OPERATING ACTIVITIES	1,901,344	1,390,383
<u>CASH FLOWS - INVESTING ACTIVITIES</u>		
Purchases of property and equipment	(162,796)	(217,490)
Change in cash - capital reserve	800,000	(1,035,000)
Deposits	(800,000)	(20,000)
NET CASH PROVIDED FROM (USED FOR) INVESTING ACTIVITIES	(162,796)	(1,272,490)
NET INCREASE IN CASH	1,738,548	117,893
Cash at beginning of year	2,848,087	2,730,194
CASH AT END OF YEAR	<u>\$ 4,586,635</u>	<u>\$ 2,848,087</u>

The accompanying notes are an integral part of the consolidated financial statements.

NEIGHBORHOOD CHARTER SCHOOL OF HARLEM

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2017

(With Comparative Totals for 2016)

NOTE A: THE ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation and principles of consolidation

The accompanying consolidated financial statements include the accounts of Neighborhood Charter School of Harlem (the “School”) and Friends of NCSH, Inc. (“Friends”), (collectively referred to as the “Organization”). The Organizations are presenting consolidated financial statements because they have a common Board of Trustees and economic interest. All intercompany balances and transactions have been eliminated in the accompanying consolidated financial statements.

The Organization

The School is a New York State, not-for-profit educational corporation that was incorporated on September 13, 2011 to operate a charter school pursuant to Article 56 of the Educational Law of the State of New York. The School was granted a provisional charter on September 13, 2011, 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. On March 13, 2017, the Board of Regents of the University of the State of New York granted the School a provisional charter valid for a term of five years through June 30, 2022 and renewable upon expiration.

The School opened its doors in the fall of 2012 in Harlem, New York with a rigorous academic program and a highly structured and supportive school culture. The School serves a wide range of students, including students with disabilities and students whose native language is not English, drawn mostly from central Harlem, the community school district in which it is located. It offers a specialized inclusion program for students with high-functioning autism, who constitute approximately 15% of the student body.

Friends was organized under the laws of the State of New York on December 11, 2009 as a not-for-profit corporation under subparagraph (a)(5) of Section 102 of the Not-For-Profit Corporation Law as Friends of NEST Charter School, Inc. Friends was formed to provide funding and administrative assistance to promote the application for a charter school, to provide ongoing financial and volunteer support for such school and to engage in any and all activities reasonably related to such purpose. Effective June 28, 2013, this organization changed its name to Friends of NCSH, Inc.

Financial Statement presentation

The consolidated financial statements of the Organization have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America (GAAP). The Organization reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

These classes of net assets are defined as follows:

Permanently restricted – Net assets resulting from contributions and other inflows of assets whose use by the Organization is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Organization. The Organization had no permanently restricted net assets at June 30, 2017 or 2016.

NEIGHBORHOOD CHARTER SCHOOL OF HARLEM

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2017

(With Comparative Totals for 2016)

NOTE A: THE ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES,

Cont'd

Temporarily restricted – Net assets resulting from contributions and other inflows of assets whose use by the Organization is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Organization pursuant to those stipulations. The Organization had \$13,812 of temporarily restricted net assets at June 30, 2016 which are restricted for improving school meals for students along with nutrition education classes and indoor gardens. The Organization had no temporarily restricted net assets at June 30, 2017.

Unrestricted – The net assets over which the Governing Board has discretionary control to use in carrying on the Organization's operations in accordance with the guidelines established by the Organization. The Board may designate portions of the current unrestricted net assets for specific purposes, projects or investment. At June 30, 2016, the Governing Board had designated \$1,035,000 of unrestricted net assets to fund a construction contribution required by a lease agreement as discussed in Note C. There were no board designated amounts at June 30, 2017.

Revenue and support recognition

Revenue from 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.

Revenue from federal, state and local government grants and contracts are recorded by the Organization when qualifying expenditures are incurred and billable.

Contributions

Contributions received are recorded as unrestricted, temporarily or permanently restricted support depending on the existence of any donor restrictions. A contribution that is received and expended in the same year for a specific purpose is classified as unrestricted revenue.

Contributions are recorded as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities and changes in net assets as net assets released from restrictions.

Cash

Cash balances are maintained at financial institutions located in New York and are insured by the Federal Deposit Insurance Corporation up to \$250,000 at each institution. In the normal course of business, the cash account balances at any given time may exceed insured limits. However, the Organization has not experienced any losses in such accounts and does not believe it is exposed to significant risk in cash.

\$235,000 and \$1,035,000 has been segregated on the consolidated statement of financial position at June 30, 2017 and 2016, respectively, representing the board designated net assets.

NEIGHBORHOOD CHARTER SCHOOL OF HARLEM

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2017

(With Comparative Totals for 2016)

NOTE A: THE ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES,

Cont'd

Cash in escrow

The School maintains cash in an escrow account in accordance with the terms of their charter agreement. The amount in escrow as of June 30, 2017 and 2016 was \$75,000. The escrow is restricted to fund legal and other costs related to the dissolution of the School.

Grants and other receivables

Grants and other receivables are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts based on its assessment of the current status of individual receivables from grants, agencies and others. Balances that are still outstanding after management has used reasonable collection efforts are written off against the allowance for doubtful accounts. There was no allowance for doubtful accounts at June 30, 2017 or 2016.

Property and equipment

Property and equipment are recorded at cost. Depreciation and amortization are computed using the straight-line method on a basis considered adequate to depreciate the assets over their estimated useful lives, which range from two to five years.

Tax exempt status

The School and Friends are tax-exempt organizations under section 501(c)(3) of the Internal Revenue Code and applicable state regulations and, accordingly, are exempt from federal and state taxes on income.

The School and Friends file Form 990 tax returns in the U.S. federal jurisdiction. Friends also files in New York State. The tax returns for the years ended June 30, 2014 through June 30, 2017 are still subject to potential audit by the IRS. Management of the School and Friends believes it has no material uncertain tax positions and, accordingly it will not recognize any liability for unrecognized tax benefits.

Contributed services

The Organization receives contributed services from volunteers to serve on the Board of Trustees. The Organization received transportation services, nursing services, and occupational and physical therapy services from the local district. These services are not valued in the financial statements.

Marketing costs

The Organization expenses marketing costs as they are incurred. Total marketing and recruiting costs approximated \$73,000 and \$53,000 for the years ended June 30, 2017 and 2016, respectively.

Deferred revenue

The Organization records grant revenue as deferred revenue until it is expended for the purpose of the grant, at which time it is recognized as revenue.

NEIGHBORHOOD CHARTER SCHOOL OF HARLEM

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2017

(With Comparative Totals for 2016)

NOTE A: THE ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES,

Cont'd

Use of estimates in the preparation of financial statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications

Certain prior year amounts have been reclassified to conform with current year presentation.

Comparatives for year ended June 30, 2016

The consolidated financial statements include certain prior year summarized comparative information in total but not by functional classification. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Charter School's consolidated financial statements for the year ended June 30, 2016, from which the summarized information was derived.

Subsequent events

The Organization has conducted an evaluation of potential subsequent events occurring after the statement of financial position date through October 24, 2017, which is the date the financial statements are available to be issued. No subsequent events requiring disclosure were noted.

NOTE B: PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

	June 30,	
	2017	2016
Furniture and fixtures	\$ 269,381	\$ 213,267
Computers and equipment	201,370	165,258
Leasehold improvements	469,620	399,050
	940,371	777,575
Less accumulated depreciation and amortization	697,748	462,259
	<u>\$ 242,623</u>	<u>\$ 315,316</u>

Total depreciation expense was \$235,489 and \$126,280 for the years ended June 30, 2017 and 2016, respectively.

NEIGHBORHOOD CHARTER SCHOOL OF HARLEM

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2017

(With Comparative Totals for 2016)

NOTE C: SCHOOL FACILITY

Effective July 1, 2012, the School entered into a two year lease for its facilities through June 30, 2014. This lease was subsequently amended to include additional space for total base rent of \$289,000 for the year ended June 30, 2014. Total approximate square footage as of June 30, 2014 was 14,775. During 2014, the School entered into a one year renewal through June 30, 2015 where base rent was increased to \$480,000 per annum, payable in equal monthly installments of \$40,000 beginning July 1, 2014. Total approximate square footage as of June 30, 2015 was 18,500. In 2015, the School exercised its option to renew the lease for an additional two years, through June 30, 2017. The renewal called for base rent equal to the greater of 103% of the prior year's rent or the prior year's rent plus \$1,000 per each additional student enrolled as of a specified date. \$40,000 of deposits are related to this lease. In 2017, the School received an option to renew for an additional two years, through June 30, 2019. The renewal calls for base rent of 3% over the prior year's rent. The School expects to occupy this space through June 30, 2018.

During 2015, the School entered into a lease for an additional facility (NCSH North Campus) to accommodate growth and to be occupied starting July 1, 2015. The lease called for base rent of \$120,000 with an option to extend. During 2016, the Charter School exercised its option to extend with base rent of \$240,000 for the year ending June 30, 2017 and base rent of \$300,000 for the year ending June 30, 2018. \$20,000 of deposits are related to this lease.

During 2014, the School entered into a twenty year lease for a new facility to be constructed which will commence the later of July 1, 2015 or the time of occupancy. The lease was amended in 2015 and 2016. The lease calls for base rent of \$1,394,000 per annum with annual rent increases of 3% per year. \$1,000,000 of deposits relate to this lease, which are being used to help fund the cost of the new building. Upon completion of construction, \$348,500 will be retained as a security deposit which represents three months of the base rent. A rent abatement of \$651,500 will then be credited to the tenant which will be applied to the installments of the base rent until exhausted beginning with the commencement of the lease. Occupancy has not occurred as of the report date.

The future minimum payments for these agreements for base rent, assuming occupancy on July 1, 2018 of the new facility and abatements of \$651,500 being utilized in 2019, a 3% increase per year and offsets of security deposits according to the current lease agreements, as described above, are as follows:

<u>Year ending June 30,</u>	<u>Amount</u>
2018	\$ 794,400
2019	1,394,000
2020	1,435,820
2021	1,478,895
2022	1,523,261
Thereafter	<u>31,625,326</u>
	<u>\$ 38,251,702</u>

Rent expense for the years ended June 30, 2017 and 2016 was approximately \$734,000 and \$590,000, respectively.

NEIGHBORHOOD CHARTER SCHOOL OF HARLEM

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2017

(With Comparative Totals for 2016)

NOTE D: OPERATING LEASE

The Organization has entered into certain non-cancelable lease agreements for office equipment expiring at various dates through June 2020. The future minimum payments on this agreement are as follows:

<u>Year ending June 30,</u>	<u>Amount</u>
2018	28,085
2019	13,752
2020	<u>12,060</u>
	<u>\$ 53,897</u>

NOTE E: RETIREMENT PLAN

The School sponsors a 401(k) retirement plan (the "Plan") covering most employees. The School matches employees' contributions up to 3% of their annual salaries. The School's total contribution to the Plan for the years ended June 30, 2017 and 2016 approximated \$97,000 and \$63,000, respectively.

NOTE F: CONTINGENCY

Certain grants and contracts may be subject to audit by funding sources. Such audits might result in disallowance of costs submitted for reimbursement by the Organization. Management is of the opinion that such 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.

NOTE G: CONCENTRATIONS

At June 30, 2017 and 2016, 81% and 100%, respectively, of grants and other receivables are due from New York State.

For the years ended June 30, 2017 and 2016, approximately 93% of total operating revenue and support came from per-pupil funding provided by New York State. The per-pupil rate is set annually by the State based on the school district in which the School's students are located.

NEIGHBORHOOD CHARTER SCHOOL OF HARLEM

OTHER CONSOLIDATING FINANCIAL INFORMATION

INDEPENDENT AUDITOR'S REPORT ON CONSOLIDATING FINANCIAL INFORMATION

Board of Trustees
Neighborhood Charter School of Harlem

We have audited the consolidated financial statements of Neighborhood Charter School of Harlem as of and for the year ended June 30, 2017, and we have issued our report thereon dated October 24, 2017, which contained an unmodified opinion on those consolidated financial statements. Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The 2017 consolidating financial information hereinafter is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements for the year ended June 30, 2017, as a whole.

Mengel, Metzger, Barr & Co. LLP

Rochester, New York
October 24, 2017

NEIGHBORHOOD CHARTER SCHOOL OF HARLEM

CONSOLIDATING STATEMENT OF FINANCIAL POSITION

JUNE 30, 2017

<u>ASSETS</u>	Neighborhood Charter School of Harlem	Friends of NCSH, Inc.	Eliminations	Total
<u>CURRENT ASSETS</u>				
Cash	\$ 4,519,552	\$ 67,083	\$ -	\$ 4,586,635
Cash - capital reserve	235,000	-	-	235,000
Grants and other receivables	267,417	-	-	267,417
Prepaid expenses	<u>66,431</u>	<u>-</u>	<u>-</u>	<u>66,431</u>
TOTAL CURRENT ASSETS	5,088,400	67,083	-	5,155,483
<u>OTHER ASSETS</u>				
Property and equipment, net	242,623	-	-	242,623
Deposits	1,060,000	-	-	1,060,000
Cash in escrow	<u>75,000</u>	<u>-</u>	<u>-</u>	<u>75,000</u>
	<u>1,377,623</u>	<u>-</u>	<u>-</u>	<u>1,377,623</u>
TOTAL ASSETS	<u>\$ 6,466,023</u>	<u>\$ 67,083</u>	<u>\$ -</u>	<u>\$ 6,533,106</u>
<u>LIABILITIES AND NET ASSETS</u>				
<u>CURRENT LIABILITIES</u>				
Accounts payable and accrued expenses	\$ 314,422	\$ -	\$ -	\$ 314,422
Accrued payroll and benefits	403,334	-	-	403,334
Deferred revenue	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL CURRENT LIABILITIES	717,756	-	-	717,756
<u>NET ASSETS</u>	<u>5,748,267</u>	<u>67,083</u>	<u>-</u>	<u>5,815,350</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 6,466,023</u>	<u>\$ 67,083</u>	<u>\$ -</u>	<u>\$ 6,533,106</u>

NEIGHBORHOOD CHARTER SCHOOL OF HARLEM

CONSOLIDATING STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

YEAR ENDED JUNE 30, 2017

	<u>Neighborhood Charter School of Harlem</u>	<u>Friends of NCSH, Inc.</u>	<u>Eliminations</u>	<u>Total</u>
Operating revenue and support:				
State and local per pupil operating revenue	\$ 9,675,478	\$ -	\$ -	\$ 9,675,478
Federal and State grants	654,454	-	-	654,454
Contributions	9,143	16,846	-	25,989
Special events	-	-	-	-
Other income	<u>41,406</u>	<u>-</u>	<u>-</u>	<u>41,406</u>
Total operating revenue and support	10,380,481	16,846	-	10,397,327
Expenses:				
Program services:				
Regular education	5,138,531	27,660	-	5,166,191
Special education	3,349,897	-	-	3,349,897
Supporting services:				
Management and general	325,450	-	-	325,450
Fundraising and special events	<u>1,087</u>	<u>-</u>	<u>-</u>	<u>1,087</u>
TOTAL EXPENSES	<u>8,814,965</u>	<u>27,660</u>	<u>-</u>	<u>8,842,625</u>
CHANGE IN NET ASSETS	1,565,516	(10,814)	-	1,554,702
Net assets at beginning of year	<u>4,182,751</u>	<u>77,897</u>	<u>-</u>	<u>4,260,648</u>
NET ASSETS AT END OF YEAR	<u>\$ 5,748,267</u>	<u>\$ 67,083</u>	<u>\$ -</u>	<u>\$ 5,815,350</u>

NEIGHBORHOOD CHARTER SCHOOL OF HARLEM

REPORT REQUIRED BY GOVERNMENT AUDITING STANDARDS

INDEPENDENT AUDITOR'S 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
Neighborhood Charter School of Harlem

We have audited 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, the consolidated financial statements of Neighborhood Charter School of Harlem, which comprise the consolidated statement of financial position as of June 30, 2017, and the related consolidated statements of activities and changes in net assets, 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 24, 2017.

Internal Control over Financial Reporting

Management of Neighborhood Charter School of Harlem is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit of the financial statements, we considered Neighborhood Charter School of Harlem'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 consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of Neighborhood Charter School of Harlem's internal control. Accordingly, we do not express an opinion on the effectiveness of Neighborhood Charter School of Harlem'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 over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting 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. We did identify a certain deficiency in internal control described in the accompanying Schedule of Findings and Responses as Item 2017-001, that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Neighborhood Charter School of Harlem's consolidated 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 we reported to management of Neighborhood Charter School of Harlem in a separate letter dated October 24, 2017.

Neighborhood Charter School of Harlem's Response to Finding

Neighborhood Charter School of Harlem's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Responses. Neighborhood Charter School of Harlem's response was not subjected to the auditing procedures applied in the audit of the consolidated financial statements and, accordingly, we express no opinion on it.

Purpose of This Report

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

Mengel, Metzger, Baw & Co. LLP

Rochester, New York
October 24, 2017

NEIGHBORHOOD CHARTER SCHOOL OF HARLEM

SCHEDULE OF FINDINGS AND RESPONSES

YEAR ENDED JUNE 30, 2017

Finding 2017-001

Statement of condition

During our audit, we noted one instance where proper expense cutoff was not achieved. Proper cutoffs are critical for the accuracy of the accrual basis of accounting. This error resulted in a significant auditor adjustment.

Criteria an defect of conditions

Accounting principles generally accepted in the United States of America require revenues and expenses be accounted for on the accrual basis of accounting. Proper cut-off was not properly achieved which resulted in expenses being understated.

Recommendation

We recommend the School revisit its accounting policies and procedures to ensure proper cutoff of expenses.

Management's response

Management will ensure that all invoices are booked in the period the expenses are incurred, in accordance with accrual based accounting practices.