

**East Harlem Scholars Academy Charter School**

Financial Statements and  
Uniform Guidance Schedules  
Together With Independent Auditors' Reports

June 30, 2020 and 2019

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Uniform Guidance Schedules  
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| <b>TABLE OF CONTENTS</b>  | <b>Page</b> |
|---|-------------|
| Independent Auditors' Report  |             |
| <b>FINANCIAL STATEMENTS</b>   |             |
| Statements of Financial Position  | 3           |
| Statements of Activities  | 4           |
| Statements of Functional Expenses   | 5           |
| Statements of Cash Flows  | 7           |
| Notes to Financial Statements   | 8           |
| <b>SUPPLEMENTARY INFORMATION</b>  |             |
| Schedule of Activities by School  | 18          |
| Schedule of Functional Expenses – East Harlem Scholars Academy School   | 19          |
| Schedule of Functional Expenses – East Harlem Scholars Academy School II  | 20          |
| <b>UNIFORM GUIDANCE REPORTS AND SCHEDULES</b>   |             |
| Schedule of Expenditures of Federal Awards  | 21          |
| Notes to Schedule of Expenditures of Federal Awards   | 22          |
| Report on Internal Control Over Financial Reporting and on Compliance<br>and Other Matters Based on an Audit of Financial Statements Performed<br>in Accordance With <i>Government Auditing Standards</i> |             |
| Report on Compliance for Each Major Federal Program and Report on Internal<br>Control Over Compliance Required by the Uniform Guidance  |             |
| Schedule of Findings and Questioned Costs   | 27          |

## Independent Auditors' Report

### Board of Trustees East Harlem Scholars Academy Charter School

#### Report on the Financial Statements

We have audited the accompanying financial statements of East Harlem Scholars Academy Charter School (the "School"), which comprise the statements of financial position as of June 30, 2020 and 2019, and the related statements of activities, functional expenses and cash flows for the years 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 audits. We conducted our audits 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 entity'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 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 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 East Harlem Scholars Academy Charter School as of June 30, 2020 and 2019, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

***Report on Supplementary Information***

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedules of activities and functional expenses by school for the year ended June 30, 2020 on pages 18 through 20 are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying schedule of expenditures of federal awards on page 21 as required by Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"), is presented for purposes of additional analysis and is not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 financial statements as a whole.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated October 22, 2020 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*

October 22, 2020

## East Harlem Scholars Academy Charter School

### Statements of Financial Position

|  | June 30,     |              |
|--|--------------|--------------|
|  | 2020         | 2019         |
| <b>ASSETS</b>                            |              |              |
| Current Assets                           |              |              |
| Cash                                     | \$ 7,509,322 | \$ 1,567,992 |
| Grants and contracts receivable          | 754,596      | 1,025,605    |
| Prepaid expenses                         | 351,109      | -            |
| Total Current Assets                     | 8,615,027    | 2,593,597    |
| Restricted cash                          | 150,328      | 150,206      |
| Property and equipment, net              | 731,999      | 657,283      |
|  | \$ 9,497,354 | \$ 3,401,086 |
| <br><b>LIABILITIES AND NET ASSETS</b>    |              |              |
| Current Liabilities                      |              |              |
| Accounts payable and accrued expenses    | \$ 1,690,747 | \$ 1,392,534 |
| Due to East Harlem Tutorial Program      | 2,233,194    | 452,187      |
| Refundable advances                      | 53,488       | 23,511       |
| Deferred rent, current portion           | 55,669       | 55,669       |
| Total Current Liabilities                | 4,033,098    | 1,923,901    |
| Paycheck Protection Program loan payable | 2,849,695    | -            |
| Deferred rent                            | 562,427      | 506,758      |
| Total Liabilities                        | 7,445,220    | 2,430,659    |
| Net assets, without donor restrictions   | 2,052,134    | 970,427      |
|  | \$ 9,497,354 | \$ 3,401,086 |

See notes to financial statements

## East Harlem Scholars Academy Charter School

### Statements of Activities

|   | Year Ended June 30, |               |
|---|---------------------|---------------|
|   | 2020                | 2019          |
| <b>REVENUE AND SUPPORT</b>                  |                     |               |
| Public School District                      |                     |               |
| State and local per pupil operating revenue | \$ 21,826,848       | \$ 18,506,090 |
| Universal pre-kindergarten                  | 733,826             | 707,913       |
| Lease assistance                            | 1,416,600           | 1,416,644     |
| Government grants and contracts             | 1,334,591           | 1,980,344     |
| Contributions                               | 575,000             | 449,717       |
| Other income                                | 67,481              | 34,746        |
| Total Revenue and Support                   | 25,954,346          | 23,095,454    |
| <b>EXPENSES</b>                             |                     |               |
| Program Services                            |                     |               |
| General education                           | 15,387,821          | 14,442,035    |
| Special education                           | 5,660,400           | 5,257,267     |
| Pre-kindergarten                            | 470,552             | 398,731       |
| Supplemental education                      | 55,141              | 165,111       |
| Total Program Services                      | 21,573,914          | 20,263,144    |
| Supporting Services                         |                     |               |
| Management and general                      | 2,550,668           | 1,997,529     |
| Fundraising                                 | 748,057             | 740,428       |
| Total Expenses                              | 24,872,639          | 23,001,101    |
| Change in Net Assets                        | 1,081,707           | 94,353        |
| <b>NET ASSETS</b>                           |                     |               |
| Beginning of year                           | 970,427             | 876,074       |
| End of year                                 | \$ 2,052,134        | \$ 970,427    |

See notes to financial statements

## East Harlem Scholars Academy Charter School

### Statement of Functional Expenses Year Ended June 30, 2020

|  | No. of Positions | Program Services  |                   |                  |                        |               |           | Total Program Services | Management and General | Fundraising   | Total |
|--|------------------|-------------------|-------------------|------------------|------------------------|---------------|-----------|------------------------|------------------------|---------------|-------|
|  |                  | General Education | Special Education | Pre-Kindergarten | Supplemental Education | Kindergarten  | Education |                        |                        |               |       |
| <b>Personnel Services Costs</b>            |                  |                   |                   |                  |                        |               |           |                        |                        |               |       |
| Administrative staff personnel             | 39               | \$ 1,287,697      | \$ 447,174        | \$ 50,620        | \$ -                   | \$ 1,785,491  | \$ -      | \$ 633,733             | \$ -                   | \$ 2,419,224  |       |
| Instructional personnel                    | 133              | 8,401,104         | 3,015,154         | 268,078          | -                      | 11,684,336    | -         | -                      | -                      | 11,684,336    |       |
| Total Salaries and Staff                   | 172              | 9,688,801         | 3,462,328         | 318,698          | -                      | 13,469,827    | -         | 633,733                | -                      | 14,103,560    |       |
| <b>Fringe benefits and payroll taxes</b>   |                  |                   |                   |                  |                        |               |           |                        |                        |               |       |
| Retirement                                 |                  | 1,550,392         | 614,379           | 57,119           | -                      | 2,221,890     | -         | 88,758                 | -                      | 2,310,648     |       |
| Legal services                             |                  | 89,919            | 35,633            | 3,313            | -                      | 128,865       | -         | 5,147                  | -                      | 134,012       |       |
| Accounting and audit services              |                  | -                 | -                 | -                | -                      | -             | -         | 14,182                 | -                      | 14,182        |       |
| Other professional and consulting services |                  | -                 | -                 | -                | -                      | -             | -         | 511,555                | -                      | 511,555       |       |
| Building and land rent/lease               |                  | 228,948           | 90,725            | 8,435            | -                      | 328,108       | -         | 1,156,442              | 748,057                | 2,232,607     |       |
| Repairs and maintenance                    |                  | 1,094,410         | 433,685           | 40,320           | -                      | 1,568,415     | -         | 62,654                 | -                      | 1,631,069     |       |
| Insurance                                  |                  | 607,933           | 240,907           | 22,397           | -                      | 871,237       | -         | 34,802                 | -                      | 906,039       |       |
| Utilities                                  |                  | 65,300            | 25,877            | 2,406            | -                      | 93,583        | -         | 3,739                  | -                      | 97,322        |       |
| Supplies and materials                     |                  | 141,638           | 56,128            | 5,218            | -                      | 202,984       | -         | 8,109                  | -                      | 211,093       |       |
| Equipment and furnishings                  |                  | 391,024           | 140,554           | -                | -                      | 531,578       | -         | -                      | -                      | 531,578       |       |
| Staff development                          |                  | 179,498           | 61,969            | -                | -                      | 241,467       | -         | -                      | -                      | 241,467       |       |
| Marketing and recruitment                  |                  | 288,680           | 100,302           | -                | -                      | 388,982       | -         | -                      | -                      | 388,982       |       |
| Technology                                 |                  | 62,581            | 21,221            | -                | -                      | 83,802        | -         | -                      | -                      | 83,802        |       |
| Food service                               |                  | 151,341           | 56,676            | 3,527            | -                      | 211,544       | -         | 5,480                  | -                      | 217,024       |       |
| Student services                           |                  | 169,064           | 66,938            | -                | -                      | 236,002       | -         | -                      | -                      | 236,002       |       |
| Office expenses                            |                  | 122,791           | 45,330            | -                | 55,141                 | 223,262       | -         | -                      | -                      | 223,262       |       |
| Depreciation and amortization              |                  | 288,579           | 102,719           | -                | -                      | 391,298       | -         | -                      | -                      | 391,298       |       |
| Dues and memberships                       |                  | 247,525           | 98,088            | 9,119            | -                      | 354,732       | -         | 10,372                 | -                      | 365,104       |       |
| Other expenses                             |                  | 14,236            | 5,062             | -                | -                      | 19,298        | -         | -                      | -                      | 19,298        |       |
|  |                  | 5,161             | 1,879             | -                | -                      | 7,040         | -         | 15,695                 | -                      | 22,735        |       |
| <b>Total Expenses</b>                      |                  | \$ 15,387,821     | \$ 5,660,400      | \$ 470,552       | \$ 55,141              | \$ 21,573,914 | \$ -      | \$ 2,550,668           | \$ 748,057             | \$ 24,872,639 |       |

See notes to financial statements

## East Harlem Scholars Academy Charter School

### Statement of Functional Expenses Year Ended June 30, 2019

|  | No. of Positions | Program Services     |                     |                   |                        |                        |                     | Management and General | Fundraising          | Total |
|--|------------------|----------------------|---------------------|-------------------|------------------------|------------------------|---------------------|------------------------|----------------------|-------|
|  |                  | General Education    | Special Education   | Pre-Kindergarten  | Supplemental Education | Total Program Services |                     |                        |                      |       |
| <b>Personnel Services Costs</b>            |                  |                      |                     |                   |                        |                        |                     |                        |                      |       |
| Administrative staff personnel             | 35               | \$ 1,657,213         | \$ 650,145          | \$ 113,488        | \$ -                   | \$ 2,420,846           | \$ 569,298          | \$ -                   | \$ 2,990,144         |       |
| Instructional personnel                    | 125              | 6,865,725            | 2,228,389           | 164,815           | -                      | 9,258,929              | -                   | -                      | 9,258,929            |       |
| Non-instructional personnel                | 1                | -                    | -                   | -                 | -                      | -                      | 3,758               | -                      | 3,758                |       |
| <b>Total Salaries and Staff</b>            | <u>161</u>       | <u>8,522,938</u>     | <u>2,878,534</u>    | <u>278,303</u>    | <u>-</u>               | <u>11,679,775</u>      | <u>573,056</u>      | <u>-</u>               | <u>12,252,831</u>    |       |
| Fringe benefits and payroll taxes          |                  | 1,442,847            | 497,478             | 48,923            | -                      | 1,989,248              | 96,238              | -                      | 2,085,486            |       |
| Retirement                                 |                  | 94,126               | 34,405              | 2,819             | -                      | 131,350                | 6,130               | -                      | 137,480              |       |
| Legal services                             |                  | -                    | -                   | -                 | -                      | -                      | 5,988               | -                      | 5,988                |       |
| Accounting and audit services              |                  | -                    | -                   | -                 | -                      | -                      | 70,225              | -                      | 70,225               |       |
| Other professional and consulting services |                  | 189,408              | 151,182             | 3,316             | -                      | 343,906                | 1,104,020           | 732,042                | 2,179,968            |       |
| Building and land rent/lease               |                  | 971,525              | 419,560             | 22,824            | -                      | 1,413,909              | 58,358              | -                      | 1,472,267            |       |
| Repairs and maintenance                    |                  | 527,256              | 219,200             | 13,214            | -                      | 759,670                | 32,320              | -                      | 791,990              |       |
| Insurance                                  |                  | 77,002               | 26,222              | 2,347             | -                      | 105,571                | 4,829               | -                      | 110,400              |       |
| Utilities                                  |                  | 107,503              | 46,426              | 2,526             | -                      | 156,455                | 6,458               | -                      | 162,913              |       |
| Supplies and materials                     |                  | 234,536              | 99,235              | 9,355             | -                      | 343,126                | -                   | -                      | 343,126              |       |
| Equipment and furnishings                  |                  | 235,482              | 92,912              | -                 | -                      | 328,394                | -                   | -                      | 328,394              |       |
| Staff development                          |                  | 258,922              | 101,732             | -                 | -                      | 360,654                | 7,452               | -                      | 368,106              |       |
| Marketing and recruitment                  |                  | 132,719              | 50,764              | -                 | -                      | 183,483                | -                   | -                      | 183,483              |       |
| Technology                                 |                  | 308,259              | 112,044             | 8,145             | -                      | 428,448                | 17,279              | -                      | 445,727              |       |
| Food service                               |                  | 579,804              | 234,977             | -                 | -                      | 814,781                | -                   | -                      | 814,781              |       |
| Student services                           |                  | 281,918              | 112,145             | -                 | 165,111                | 559,174                | -                   | -                      | 559,174              |       |
| Office expenses                            |                  | 225,056              | 89,064              | -                 | -                      | 314,120                | -                   | -                      | 314,120              |       |
| Depreciation and amortization              |                  | 227,376              | 81,583              | 6,959             | -                      | 315,918                | 14,925              | -                      | 330,843              |       |
| Dues and memberships                       |                  | 23,648               | 9,157               | -                 | -                      | 32,805                 | -                   | -                      | 32,805               |       |
| Other expenses                             |                  | 1,710                | 647                 | -                 | -                      | 2,357                  | 251                 | 8,386                  | 10,994               |       |
| <b>Total Expenses</b>                      |                  | <u>\$ 14,442,035</u> | <u>\$ 5,257,267</u> | <u>\$ 398,731</u> | <u>\$ 165,111</u>      | <u>\$ 20,263,144</u>   | <u>\$ 1,997,529</u> | <u>\$ 740,428</u>      | <u>\$ 23,001,101</u> |       |

See notes to financial statements



## East Harlem Scholars Academy Charter School

### Statements of Cash Flows

|  | Year Ended June 30, |              |
|--|---------------------|--------------|
|  | 2020                | 2019         |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>  |                     |              |
| Change in net assets   | \$ 1,081,707        | \$ 94,353    |
| Adjustments to reconcile change in net assets<br>to net cash from operating activities                                       |                     |              |
| Depreciation and amortization  | 365,104             | 330,843      |
| Deferred rent  | 55,669              | 55,669       |
| Changes in operating assets and liabilities  |                     |              |
| Grants and contracts receivable  | 271,009             | (8,972)      |
| Prepaid expenses   | (351,109)           | 173,172      |
| Due from East Harlem Center, LLC   | -                   | (239,739)    |
| Accounts payable and accrued expenses  | 298,213             | 353,132      |
| Due to East Harlem Tutorial Program  | 1,781,007           | 8,598        |
| Refundable advances  | 29,977              | 16,974       |
| Net Cash from Operating Activities   | 3,531,577           | 784,030      |
| <br><b>CASH FLOWS FROM INVESTING ACTIVITY</b>  |                     |              |
| Purchases of property and equipment  | (439,820)           | (265,949)    |
| <br><b>CASH FLOWS FROM FINANCING ACTIVITY</b>  |                     |              |
| Proceeds from Paycheck Protection Program loan payable   | 2,849,695           | -            |
| <br>Net Change in Cash and Restricted Cash   | 5,941,452           | 518,081      |
| <br><b>CASH AND RESTRICTED CASH</b>  |                     |              |
| Beginning of year  | 1,718,198           | 1,200,117    |
| End of year  | \$ 7,659,650        | \$ 1,718,198 |
| <br>The following table provides a reconciliation of cash and<br>restricted cash within the statement of financial position: |                     |              |
| Cash   | \$ 7,509,322        | \$ 1,567,992 |
| Restricted cash  | 150,328             | 150,206      |
|  | \$ 7,659,650        | \$ 1,718,198 |

See notes to financial statements

## **East Harlem Scholars Academy Charter School**

Notes to Financial Statements

June 30, 2020 and 2019

### **1. Organization and Tax Status**

#### ***The Corporation***

Founded upon the 53-year legacy of East Harlem Tutorial Program (“EHTP”), East Harlem Scholars Academy Charter School (the “Corporation”) is a not-for-profit education corporation originally formed by the Board of Regents of the University of the State of New York (the “Board of Regents”) on December 14, 2010 by the granting of a Provisional Charter (the education corporation-equivalent of a certificate of incorporation) to operate one (1) (and as of January 1, 2013 two (2)) public charter schools. The Board of Regents has since issued two renewals to the Corporation’s charter. The Corporation’s charter expires on December 31, 2020. The Corporation is currently in the process of renewing its charter. The mission of the schools is to prepare students with the academic skills, strength of character and social and emotional well-being to excel in high school and college, to lead in their communities, and to realize their best possible selves. The Corporation does this by challenging their students, teachers, and families to examine issues of racism and identity and model the learning and dialogue needed to ensure a more equitable future for young people of color. Through this commitment, the Corporation prepares their scholars to effect change, challenge the status quo, thrive in the world around them, and thoughtfully contribute to the national fight for racial equity.

#### ***The Schools***

East Harlem Scholars Academy Charter School (“Scholars”) - also the name of the first school for which the Corporation received a charter to operate – is situated in East Harlem in the borough of Manhattan, New York City. Scholars opened in the fall of 2011 with kindergarten and first grade and added a grade each year so that in fiscal 2020 it served pre-kindergarten through ninth grade. In 2016 Scholars received a full five year term renewal which authorizes the school to add a grade each year until it serves kindergarten through eighth grade. In fiscal 2017 Scholars added one section of Universal Pre-Kindergarten. In May 2018, Scholars received permission to add high school grades 9<sup>th</sup> – 12<sup>th</sup>. Scholars proposes to begin the 10<sup>th</sup> grade instruction with the 2020-21 school year. Scholars provided education to approximately 677 students in kindergarten through 9<sup>th</sup> grades during the 2019-2020 academic year.

East Harlem Scholars Academy Charter School II (“Scholars II”) is the second public charter school for which the Corporation received a charter to operate. It opened in the fall of 2013 with kindergarten and first grade and will expand each year until it serves students through fifth grade. In winter of fiscal 2018, Scholars II received a full five year term renewal which authorizes the school to add a grade each year until it serves kindergarten through eighth grade. In fiscal 2016 Scholars II added two sections of Universal Pre-Kindergarten, and in fiscal 2017 Scholars added a third section of Universal Pre-Kindergarten. In fiscal 2020, the third section of UPK at Scholars II was transferred to Scholars. Scholars provided education to approximately 454 students in kindergarten through 7<sup>th</sup> grades during the 2019-2020 academic year.

Scholars and Scholars II are referred to collectively as the “School.”

## East Harlem Scholars Academy Charter School

Notes to Financial Statements

June 30, 2020 and 2019

### 1. Organization and Tax Status (*continued*)

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

Except for taxes that may be due to 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 contingencies, if any, at the date of the financial statements, and the reported amounts of support and revenue and expenses during the reporting period. Actual results could differ from those estimates.

#### ***Adoption of New Accounting Policies***

##### *Recognition of Contributions*

Effective July 1, 2019, the School adopted Accounting Standards Update ("ASU") 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This guidance provides a framework for evaluating whether contributions and grants should be accounted for as exchange transactions or as nonexchange transactions. Analysis of various provisions of this standard resulted in no significant changes in the way the School recognizes contributions and grants, and therefore no changes to the previously issued audited financial statements were required on a retrospective basis.

## East Harlem Scholars Academy Charter School

Notes to Financial Statements  
June 30, 2020 and 2019

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

#### ***Adoption of New Accounting Policies (continued)***

##### *Restricted Cash*

In November 2016, the Financial Accounting Standards Board issued ASU 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash. ASU 2016-18 requires significant changes regarding how restricted cash is classified and presented on the statement of cash flows. On July 1, 2019, the School adopted the new guidance regarding the presentation and classification of restricted cash. The guidance requires the School to 1) include restricted cash and restricted cash equivalents in the cash and cash equivalent balances on the statement of cash flows, 2) provide a reconciliation between the statement of financial position and the statement of cash flows when more than one line item for cash, cash equivalents, restricted cash, and restricted cash equivalents is presented on the statement of financial position, 3) eliminate the presentation of transfers between restricted cash and cash, and 4) include disclosures about the nature of the restrictions for material balances. Adoption of the ASU resulted in a change in the accounting for restricted cash on the statement of cash flows.

##### ***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:

*Net assets without donor restrictions* - consist of resources available for the general support of the School's operations. Net assets without donor restrictions may be used at the discretion of the School's management and/or the Board of Trustees.

*Net assets with donor restrictions* – represents amounts restricted by donors for specific activities of the School or to be used at a future date. The School records contributions as net assets with donor restrictions 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, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions. The School had no net assets with donor restrictions at June 30, 2020 and 2019.

##### ***Restricted Cash***

Under the provisions of its charter, the School established a reserve fund of \$150,000 to cover debts in the event of the School's dissolution.

## East Harlem Scholars Academy Charter School

Notes to Financial Statements

June 30, 2020 and 2019

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

#### ***Property and Equipment***

Property and equipment is recorded at cost. Additions and improvements or betterments in excess of \$3,500 with an estimated useful life of more than one year are capitalized. Depreciation is computed using the straight-line method over the estimated useful lives of the assets ranging from 2 to 5 years. Leasehold improvements are amortized over the shorter of the estimated useful life of the asset or term of the related lease. Property and equipment acquired with certain government contract funds are recorded as expenses when the government retains title to such assets.

The School reviews long-lived assets to determine whether there has been any permanent impairment whenever events or circumstances indicate the carrying amount of an asset may not be recoverable. If the sum of the expected future undiscounted cash flows is less than the carrying amount of the assets, the School recognizes an impairment loss. No impairment losses were recognized during the years ended June 30, 2020 and 2019.

#### ***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 Recognition***

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 net assets with donor restrictions 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 net assets without donor restrictions. Contributions of assets other than cash are recorded at their estimated fair value at the date of donation.

A number of volunteers have made a contribution of their time to the School to develop its programs and to serve on the School's board of trustees. The value of such contributed time is not reflected in these financial statements because it does not meet the criteria for recognition.

## East Harlem Scholars Academy Charter School

Notes to Financial Statements  
June 30, 2020 and 2019

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

#### ***Functional Expenses***

Expenses that can be directly identified with the program or supporting service to which they relate are charged accordingly. Other expenses by function have been allocated among program and supporting services classifications based upon periodic time and expense studies and other bases as determined by management of the School to be appropriate. Expenses are classified according to the functional categories for which they are incurred, as follows:

General Education Program Services – represents expenses directly associated with general education.

Special Education Program Services – represents expenses directly associated with special education for certain students requiring additional attention and guidance.

Pre-Kindergarten Program Services – represents expenses directly associated with Pre-Kindergarten programs.

Supplemental Education Program Services – represents expenses directly associated with after-school and summer school programs.

Management and General – represents expenses related to the overall administration and operation of the School that are not associated with any education services or fundraising.

Fundraising – represents expenses related to efforts to raise additional funds for the School.

#### ***Marketing and Recruitment***

Marketing and recruitment costs are expensed as incurred for staff and student recruitment. Marketing and recruitment expense for the years ended June 30, 2020 and 2019 was \$83,802 and \$183,483.

#### ***Accounting For Uncertainty in Income Taxes***

The School recognizes the effect of income tax positions only when they 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 examination by applicable taxing authorities for periods prior to June 30, 2017.

#### ***Reclassifications***

Certain amounts in the 2019 financial statements have been reclassified to conform to the 2020 presentation.

## East Harlem Scholars Academy Charter School

Notes to Financial Statements  
June 30, 2020 and 2019

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

#### ***Deferred Rent***

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

#### ***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 22, 2020.

### 3. Concentration of Credit Risk and Revenue

The School's financial instruments that are potentially exposed to concentration of credit risk consist of cash and cash equivalents. The School places its cash and cash equivalents with quality financial institutions in the United States. At times, cash balances may be in excess of Federal Deposit Insurance Corporation ("FDIC") insurance limits. The School routinely assesses the financial strength of its cash and cash equivalents. The School has not experienced any losses in such accounts and believes its cash balances are not exposed to any significant risk. At June 30, 2020 and 2019, approximately \$7,410,000 and \$1,468,000 was maintained with an institution in excess of FDIC limits.

The School receives a majority of its revenues from the New York City Department of Education ("NYCDOE"). The NYCDOE provides general operating support to the School based upon the location and the number of students enrolled. Support from per pupil general education and special education and lease assistance provided to the School totaled \$23,243,448 and \$19,922,734 for the years ended June 30, 2020 and 2019. The School is dependent upon this level of funding in order to continue its operations.

### 4. Grants and Accounts Receivable

At June 30, 2020 and 2019, grants and accounts receivable consist of federal, state, city entitlements and grants and are deemed to be fully collectible by management. Management has assessed the need for an allowance and has determined that such an allowance is not necessary.

## East Harlem Scholars Academy Charter School

Notes to Financial Statements  
June 30, 2020 and 2019

### 5. Property and Equipment

Property and equipment consist of the following at June 30:

|  | <u>2020</u>        | <u>2019</u>        |
|--|--------------------|--------------------|
| Computers and other equipment                | \$ 1,113,098       | \$ 968,020         |
| Furniture and fixtures                       | 952,867            | 810,626            |
| Leasehold improvements                       | <u>282,124</u>     | <u>129,623</u>     |
|  | 2,348,089          | 1,908,269          |
| Accumulated depreciation<br>and amortization | <u>(1,616,090)</u> | <u>(1,250,986)</u> |
|  | <u>\$ 731,999</u>  | <u>\$ 657,283</u>  |

### 6. Liquidity and Availability of Financial Assets

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use within one year of the statement of financial position date, are comprised of the following at June 30:

|                                 | <u>2020</u>         | <u>2019</u>         |
|---------------------------------|---------------------|---------------------|
| Cash                            | \$ 7,509,322        | \$ 1,567,992        |
| Grants and contracts receivable | <u>754,596</u>      | <u>1,025,605</u>    |
|                                 | <u>\$ 8,263,918</u> | <u>\$ 2,593,597</u> |

As part of the School's liquidity management plan, the status of grants and contracts receivable is monitored regularly and any excess cash is invested in highly liquid instruments. The School will continue to rely on funding received from the NYCDOE to cover its future operating costs (see Note 3).

### 7. Related Party Transactions (not disclosed elsewhere)

The School's bylaws stipulate that at least 51% and no more than 60% of its Trustees may also be members of the board of EHTP, thus resulting in common control. Under a cost sharing agreement with EHTP, approved by a supermajority of the board, EHTP provides the School with administrative support. Shared operating costs are allocated to the School based on employee hours spent. The total budgeted amount of the cost sharing agreement for the years ended June 30, 2020 and 2019 was \$2,306,262 and \$1,687,799. The total amount of expenses under this agreement for the years ended June 30, 2020 and 2019 was \$1,822,349 and \$1,637,000, which is included in other professional and consulting services on the accompanying statements of functional expenses.



## East Harlem Scholars Academy Charter School

Notes to Financial Statements  
June 30, 2020 and 2019

### 7. Related Party Transactions (not disclosed elsewhere) (*continued*)

In addition, EHTP pays certain expenses on behalf of the School which are subsequently reimbursed. The total amount of these reimbursed expenses for the years ended June 30, 2020 and 2019 was \$2,756,383 and \$1,567,608, which is included in various expense accounts on the accompanying statements of functional expenses.

During the year ended June 30, 2020, the School prepaid rent to East Harlem Center, LLC (“EHC”), a wholly owned subsidiary of EHTP. At June 30, 2020 and 2019 this prepayment totaled \$118,050 and \$0 and is included in prepaid expenses on the accompanying statements of financial position.

For the years ended June 30, 2020 and 2019, grants from EHTP amounted to \$240,000 and \$446,001, which is included in contributions on the accompanying statements of activities. At June 30, 2020 and 2019, grants receivable from EHTP amounted to \$81,137 and \$200,000, and are netted with due to East Harlem Tutorial Program on the accompanying statements of financial position. Net balance due from the School to EHTP at June 30, 2020 and 2019 totaled \$2,233,194 and \$452,187. The School repaid EHTP approximately \$1,399,000 prior to the issuance of these financial statements.

The accompanying financial statements reflect only the activities and net assets of the School. Management has applied U.S. GAAP standards in assessing the need to consolidate the financial statements of the School with those of EHTP and EHC. Under these standards, consolidation should occur if both an economic interest in the School and control by a majority of common board members exist. Management has determined that EHTP and EHC have no economic interest in the School and consolidation is precluded.

### 8. Agreement with School Facility

Scholars had an agreement through the school year 2015-2016 with the New York City Department of Education for space at the Jackie Robinson Educational Complex (the “Complex”), a New York City public school located at 1573 Madison Avenue, New York, New York. Beginning September 1, 2011, Scholars occupies a facility located at 2040-2050 Second Avenue, New York, NY (see Note 12). Scholars II has an agreement to be permanently co-located at the Complex. The fair value of the rent has not been included in the accompanying financial statements. The School will be responsible for any overtime-related costs for services provided beyond the regular operating hours. For the years ended June 30, 2020 and 2019, the School incurred \$5,431 and \$8,516 in overtime related costs.

### 9. Contingencies

The School is exposed to various risks of loss related to torts; thefts of, damage to, and destruction of assets; injuries to employees; and natural disasters. The School maintains commercial insurance to protect itself from such risks and is self-insured for other risks.

## East Harlem Scholars Academy Charter School

### Notes to Financial Statements

June 30, 2020 and 2019

#### 9. Contingencies (*continued*)

The School entered into contractual relationships with certain governmental funding sources. The governmental agencies may request return of funds as a result of noncompliance by the School, as well as additional funds for the use of facilities. The accompanying financial statements make no provision for the possible disallowance or refund, because management does not believe that there are any liabilities to be recorded.

#### 10. Employee Benefit Plan

The School maintains a deferred compensation plan for all qualified employees. The School elects to make contributions to the plan on a discretionary basis. The School contributed \$134,012 and \$146,836 to the plan for the years ended June 30, 2020 and 2019.

#### 11. Paycheck Protection Program Loan Payable

On April 8, 2020, the School qualified for and received a loan pursuant to the Paycheck Protection Program ("PPP"), a program implemented by the U.S. Small Business Administration ("SBA") under the Coronavirus Aid, Relief, and Economic Security Act, from a qualified PPP lender, for an aggregate principal amount of \$2,849,695 (the "PPP Loan"). The PPP Loan bears interest at a fixed rate of 1.0% per annum, with the first six months of interest deferred, has a term of two years, and is unsecured and guaranteed by the SBA. The principal amount of the PPP Loan is subject to forgiveness under the PPP upon the School's request to the extent that the PPP Loan proceeds are used to pay expenses permitted by the PPP, including payroll costs, covered rent and mortgage obligations, and covered utility payments incurred by the School. The School intends to apply for forgiveness of the PPP Loan with respect to these covered expenses. The School believes that most, if not all, of the PPP Loan will meet the requirements for debt forgiveness. To the extent that all or part of the PPP Loan is not forgiven, the School will be required to pay interest on the PPP Loan through the date principal is repaid in full or maturity date.

The SBA has stated it will review the needs certification on all loans over \$2,000,000. After the review, the SBA may determine that the School did not meet the need criteria to apply for the PPP Loan. In such a circumstance, the School may be forced to return part or all of the PPP Loan proceeds plus pay the accrued and unpaid interest. The School believes it was eligible to receive the PPP Loan proceeds.

#### 12. Commitments

During the fiscal year ended June 30, 2015, an agreement to lease the land and buildings located at 2040-2050 Second Avenue, New York, NY, was executed between Scholars and EHC. In connection with this agreement, at June 30, 2016, the School made a contribution to EHC toward the cost of the new building in the amount of \$200,000 to be amortized over the life of the lease. The lease has a term of 30 years commencing on September 1, 2016.

## East Harlem Scholars Academy Charter School

### Notes to Financial Statements

June 30, 2020 and 2019

#### 12. Commitments (*continued*)

Future minimum rental payments to be paid under this lease are as follows:

|            |                      |
|------------|----------------------|
| 2021       | \$ 1,416,600         |
| 2022       | 1,416,600            |
| 2023       | 1,416,600            |
| 2024       | 1,416,600            |
| 2025       | 1,416,600            |
| Thereafter | <u>32,059,468</u>    |
|            | <u>\$ 39,142,468</u> |

Rent expense for the years ended June 30, 2020 and 2019 was \$1,631,069 and \$1,472,267.

In addition, Scholars entered into an agreement with EHTP to sublease a portion of its space located at 2040-2050 Second Avenue, New York, NY. The lease has a term of 30 years commencing on September 1, 2016. Future minimum rental payments to be received under this lease are as follows:

|            |                   |
|------------|-------------------|
| 2021       | \$ 24,600         |
| 2022       | 24,600            |
| 2023       | 24,600            |
| 2024       | 24,600            |
| 2025       | 25,500            |
| Thereafter | <u>554,568</u>    |
|            | <u>\$ 678,468</u> |

Rental income under this sublease for each of the years ended June 30, 2020 and 2019 was \$24,600, which is included in other income on the accompanying statements of activities.

#### 13. Risks and Uncertainties

The School's operations and financial performance may be affected by the recent COVID-19 outbreak which has spread globally and is expected to adversely affect economic conditions throughout the world. If the outbreak continues and conditions worsen, the School may experience a disruption in operations as well as a decline in revenue activities. Economic uncertainty is related to the potential reduction and/or delays in state and local per pupil operating revenue, shortfalls and variations in enrollment, and operational and other changes that could increase expenses. The outbreak may adversely affect the School's activities, financial condition, results of operations, and cash flows. Management is closely monitoring the impact of COVID-19 and believes the School is taking appropriate actions to mitigate the negative impact. However, management is unable to estimate the financial impact, if any, related to this matter.

\* \* \* \* \*

**East Harlem Scholars Academy Charter School**

Supplementary Information

June 30, 2020

## East Harlem Scholars Academy Charter School

### Schedule of Activities by School Year Ended June 30, 2020

|   | <u>East Harlem<br/>Scholars<br/>Academy<br/>Charter School</u> | <u>East Harlem<br/>Scholars<br/>Academy<br/>Charter School<br/>II</u> | <u>Total</u>        |
|---|--|---|---------------------|
| <b>REVENUE AND SUPPORT</b>                  |  |   |                     |
| Public School District                      |  |   |                     |
| State and local per pupil operating revenue | \$ 13,344,744  | \$ 8,482,104  | \$ 21,826,848       |
| Universal pre-kindergarten                  | 394,968  | 338,858   | 733,826             |
| Lease assistance                            | 1,416,600  | -   | 1,416,600           |
| Government grants and contracts             | 925,536  | 409,055   | 1,334,591           |
| Contributions                               | 575,000  | -   | 575,000             |
| Other income                                | <u>57,787</u>  | <u>9,694</u>  | <u>67,481</u>       |
| Total Revenue and Support                   | <u>16,714,635</u>  | <u>9,239,711</u>  | <u>25,954,346</u>   |
| <b>EXPENSES</b>                             |  |   |                     |
| Program Services                            |  |   |                     |
| General education                           | 10,095,759   | 5,292,062   | 15,387,821          |
| Special education                           | 4,000,677  | 1,659,723   | 5,660,400           |
| Pre-kindergarten                            | 336,304  | 134,248   | 470,552             |
| Supplemental education                      | <u>52,907</u>  | <u>2,234</u>  | <u>55,141</u>       |
| Total Program Services                      | 14,485,647   | 7,088,267   | 21,573,914          |
| Supporting Services                         |  |   |                     |
| Management and general                      | 1,541,017  | 1,009,651   | 2,550,668           |
| Fundraising                                 | <u>450,451</u>   | <u>297,606</u>  | <u>748,057</u>      |
| Total Expenses                              | <u>16,477,115</u>  | <u>8,395,524</u>  | <u>24,872,639</u>   |
| Change in Net Assets                        | 237,520  | 844,187   | 1,081,707           |
| <b>NET ASSETS (DEFICIT)</b>                 |  |   |                     |
| Beginning of year                           | <u>982,830</u>   | <u>(12,403)</u>   | <u>970,427</u>      |
| End of year                                 | <u>\$ 1,220,350</u>  | <u>\$ 831,784</u>   | <u>\$ 2,052,134</u> |

See independent auditors' report

## East Harlem Scholars Academy Charter School

### Schedule of Functional Expenses East Harlem Scholars Academy School Year Ended June 30, 2020

|   | No. of Positions | Program Services     |                     |                   |                        |                      |                        |                     | Total Program Services | Management and General | Fundraising          | Total |
|---|------------------|----------------------|---------------------|-------------------|------------------------|----------------------|------------------------|---------------------|------------------------|------------------------|----------------------|-------|
|   |                  | General Education    | Special Education   | Pre-Kindergarten  | Supplemental Education | Kindergarten         | Supplemental Education | Kindergarten        |                        |                        |                      |       |
| <b>Personnel Services Costs</b>                                   |                  |                      |                     |                   |                        |                      |                        |                     |                        |                        |                      |       |
| Administrative staff personnel                                    | 25               | \$ 649,499           | \$ 257,379          | \$ 23,502         | \$ -                   | \$ 930,380           | \$ -                   | \$ 1,266,736        | \$ -                   | \$ -                   | \$ 1,266,736         |       |
| Instructional personnel   | 80               | 5,225,809            | 2,070,848           | 192,955           | -                      | 7,489,612            | -                      | 7,489,612           | -                      | -                      | 7,489,612            |       |
| Total Salaries and Staff  | 105              | 5,875,308            | 2,328,227           | 216,457           | -                      | 8,419,992            | -                      | 8,419,992           | 336,356                | -                      | 8,756,348            |       |
| Fringe benefits and payroll taxes                                 |                  | 971,688              | 385,054             | 35,799            | -                      | 1,392,541            | -                      | 1,448,169           | 55,628                 | -                      | 1,448,169            |       |
| Retirement  |                  | 66,070               | 26,182              | 2,434             | -                      | 94,686               | -                      | 98,468              | 3,782                  | -                      | 98,468               |       |
| Legal services  |                  | -                    | -                   | -                 | -                      | -                    | -                      | 13,135              | 13,135                 | -                      | 13,135               |       |
| Accounting and audit services                                     |                  | -                    | -                   | -                 | -                      | -                    | -                      | 303,727             | 303,727                | -                      | 303,727              |       |
| Other professional and consulting services                        |                  | 174,939              | 69,323              | 6,445             | -                      | 250,707              | -                      | 700,051             | 700,051                | 450,451                | 1,401,209            |       |
| Building and land rent/lease                                      |                  | 1,094,410            | 433,685             | 40,320            | -                      | 1,568,415            | -                      | 62,654              | 62,654                 | -                      | 1,631,069            |       |
| Repairs and maintenance   |                  | 544,812              | 215,894             | 20,072            | -                      | 780,778              | -                      | 31,188              | 31,188                 | -                      | 811,966              |       |
| Insurance   |                  | 41,933               | 16,617              | 1,545             | -                      | 60,095               | -                      | 2,401               | 2,401                  | -                      | 62,496               |       |
| Utilities   |                  | 133,710              | 52,986              | 4,926             | -                      | 191,622              | -                      | 7,655               | 7,655                  | -                      | 199,277              |       |
| Supplies and materials  |                  | 245,411              | 97,250              | -                 | -                      | 342,661              | -                      | -                   | -                      | -                      | 342,661              |       |
| Equipment and furnishings   |                  | 86,855               | 34,418              | -                 | -                      | 121,273              | -                      | -                   | -                      | -                      | 121,273              |       |
| Staff development   |                  | 146,139              | 57,911              | -                 | -                      | 204,050              | -                      | -                   | -                      | -                      | 204,050              |       |
| Marketing and recruitment   |                  | 26,391               | 10,458              | -                 | -                      | 36,849               | -                      | -                   | -                      | -                      | 36,849               |       |
| Technology  |                  | 81,061               | 32,122              | 2,166             | -                      | 115,349              | -                      | 3,365               | 3,365                  | -                      | 118,714              |       |
| Food service  |                  | 168,488              | 66,767              | -                 | -                      | 235,255              | -                      | -                   | -                      | -                      | 235,255              |       |
| Student services  |                  | 89,124               | 35,318              | -                 | 52,907                 | 177,349              | -                      | -                   | -                      | -                      | 177,349              |       |
| Office expenses   |                  | 170,898              | 67,722              | -                 | -                      | 238,620              | -                      | -                   | -                      | -                      | 238,620              |       |
| Depreciation and amortization                                     |                  | 166,660              | 66,043              | 6,140             | -                      | 238,843              | -                      | -                   | 5,743                  | -                      | 244,586              |       |
| Dues and memberships  |                  | 8,382                | 3,321               | -                 | -                      | 11,703               | -                      | -                   | -                      | -                      | 11,703               |       |
| Other expenses  |                  | 3,480                | 1,379               | -                 | -                      | 4,859                | -                      | -                   | 15,332                 | -                      | 20,191               |       |
| <b>Total Expenses East Harlem Scholars Academy Charter School</b> |                  | <b>\$ 10,095,759</b> | <b>\$ 4,000,677</b> | <b>\$ 336,304</b> | <b>\$ 52,907</b>       | <b>\$ 14,485,647</b> | <b>\$ -</b>            | <b>\$ 1,541,017</b> | <b>\$ 450,451</b>      | <b>\$ -</b>            | <b>\$ 16,477,115</b> |       |

See independent auditors' report

# East Harlem Scholars Academy Charter School

## Schedule of Functional Expenses East Harlem Scholars Academy School II Year Ended June 30, 2020

|  | No. of Positions | Program Services  |                   |                  |                        |                        |              |            | Management and General | Fundraising | Total |
|--|------------------|-------------------|-------------------|------------------|------------------------|------------------------|--------------|------------|------------------------|-------------|-------|
|  |                  | General Education | Special Education | Pre-Kindergarten | Supplemental Education | Total Program Services |              |            |                        |             |       |
| <b>Personnel Services Costs</b>                                      |                  |                   |                   |                  |                        |                        |              |            |                        |             |       |
| Administrative staff personnel                                       | 14               | \$ 638,198        | \$ 189,795        | \$ 27,118        | \$ -                   | \$ 855,111             | \$ 297,377   | \$ -       | \$ 1,152,488           |             |       |
| Instructional personnel  | 53               | 3,175,295         | 944,306           | 75,123           | -                      | 4,194,724              | -            | -          | 4,194,724              |             |       |
| Total Salaries and Staff   | 67               | 3,813,493         | 1,134,101         | 102,241          | -                      | 5,049,835              | 297,377      | -          | 5,347,212              |             |       |
| <b>Fringe benefits and payroll taxes</b>                             |                  |                   |                   |                  |                        |                        |              |            |                        |             |       |
| Retirement   |                  | 578,704           | 229,325           | 21,320           | -                      | 829,349                | 33,130       | -          | 862,479                |             |       |
| Legal services   |                  | 23,849            | 9,451             | 879              | -                      | 34,179                 | 1,365        | -          | 35,544                 |             |       |
| Accounting and audit services  |                  | -                 | -                 | -                | -                      | -                      | 1,047        | -          | 1,047                  |             |       |
| Other professional and consulting services                           |                  | -                 | -                 | -                | -                      | -                      | 207,828      | -          | 207,828                |             |       |
| Repairs and maintenance  |                  | 54,009            | 21,402            | 1,990            | -                      | 77,401                 | 456,391      | 297,606    | 831,398                |             |       |
| Insurance  |                  | 63,121            | 25,013            | 2,325            | -                      | 90,459                 | 3,614        | -          | 94,073                 |             |       |
| Utilities  |                  | 23,367            | 9,260             | 861              | -                      | 33,488                 | 1,338        | -          | 34,826                 |             |       |
| Supplies and materials   |                  | 7,928             | 3,142             | 292              | -                      | 11,362                 | 454          | -          | 11,816                 |             |       |
| Equipment and furnishings  |                  | 145,613           | 43,304            | -                | -                      | 188,917                | -            | -          | 188,917                |             |       |
| Staff development  |                  | 92,643            | 27,551            | -                | -                      | 120,194                | -            | -          | 120,194                |             |       |
| Marketing and recruitment  |                  | 142,541           | 42,391            | -                | -                      | 184,932                | -            | -          | 184,932                |             |       |
| Technology   |                  | 36,190            | 10,763            | -                | -                      | 46,953                 | -            | -          | 46,953                 |             |       |
| Food service   |                  | 70,280            | 24,554            | 1,361            | -                      | 96,195                 | 2,115        | -          | 98,310                 |             |       |
| Student services   |                  | 576               | 171               | -                | -                      | 747                    | -            | -          | 747                    |             |       |
| Office expenses  |                  | 33,667            | 10,012            | -                | 2,234                  | 45,913                 | -            | -          | 45,913                 |             |       |
| Depreciation and amortization  |                  | 117,681           | 34,997            | -                | -                      | 152,678                | -            | -          | 152,678                |             |       |
| Dues and memberships   |                  | 80,865            | 32,045            | 2,979            | -                      | 115,889                | 4,629        | -          | 120,518                |             |       |
| Other expenses   |                  | 5,854             | 1,741             | -                | -                      | 7,595                  | -            | -          | 7,595                  |             |       |
|  |                  | 1,681             | 500               | -                | -                      | 2,181                  | 363          | -          | 2,544                  |             |       |
| <b>Total Expenses East Harlem Scholars Academy Charter School II</b> |                  | 5,292,062         | 1,659,723         | 134,248          | 2,234                  | 7,088,267              | 1,009,651    | 297,606    | 8,395,524              |             |       |
| <b>Total Expenses East Harlem Scholars Academy Charter School</b>    |                  | 10,095,759        | 4,000,677         | 336,304          | 52,907                 | 14,485,647             | 1,541,017    | 450,451    | 16,477,115             |             |       |
| <b>Total Expenses</b>  |                  | \$ 15,387,821     | \$ 5,660,400      | \$ 470,552       | \$ 55,141              | \$ 21,573,914          | \$ 2,550,668 | \$ 748,057 | \$ 24,872,639          |             |       |

See independent auditors' report

**East Harlem Scholars Academy Charter School**

Uniform Guidance Schedules and Reports

June 30, 2020



**East Harlem Scholars Academy Charter School**

Schedule of Expenditures of Federal Awards  
Year Ended June 30, 2020

| Federal Grantor/Pass-through Grantor/<br>Program or Cluster Title                                  | Federal CFDA<br>Number | Pass-through<br>Entity Identifying<br>Number | Passed through<br>to Subrecipients | Total<br>Federal<br>Expenditures |
|--|------------------------|--|------------------------------------|----------------------------------|
| <u>U.S. Department of Education</u>  |                        |  |                                    |                                  |
| Pass-through New York State Education Department<br>Title I Grants to Local Educational Agencies   | 84.010                 | 0204-20-4840                                 | \$ -                               | \$ 285,663                       |
| Title I Grants to Local Educational Agencies   | 84.010                 | 0204-20-4980                                 | -                                  | <u>186,966</u>                   |
|  |                        |  | -                                  | <u>472,629</u>                   |
| <br>   |                        |  |                                    |                                  |
| Supporting Effective Instruction State Grants<br>(formerly Improving Teacher Quality State Grants) | 84.367                 | 0147-20-4840                                 | -                                  | 23,161                           |
| Supporting Effective Instruction State Grants<br>(formerly Improving Teacher Quality State Grants) | 84.367                 | 0147-20-4980                                 | -                                  | <u>18,794</u>                    |
|  |                        |  | -                                  | <u>41,955</u>                    |
| <br>   |                        |  |                                    |                                  |
| Student Support and Academic Enrichment Grant  | 84.424                 | 0204-20-4840                                 | -                                  | 22,376                           |
| Student Support and Academic Enrichment Grant  | 84.424                 | 0204-20-4980                                 | -                                  | <u>15,055</u>                    |
|  |                        |  | -                                  | <u>37,431</u>                    |
| <br>   |                        |  |                                    |                                  |
| Total Pass-through New York State Education Department   |                        |  | -                                  | 552,015                          |
| <br>   |                        |  |                                    |                                  |
| The Expansion and Replication of the East Harlem Scholars Academic Model<br>Charter Schools        | 84.282M                |  | -                                  | <u>299,766</u>                   |
| Total U.S. Department of Education   |                        |  | -                                  | <u>851,781</u>                   |
| <br>   |                        |  |                                    |                                  |
| <u>U.S. Department of Agriculture</u>  |                        |  |                                    |                                  |
| Pass-through New York State Education Department<br>Child Nutrition Cluster:                       |                        |  | -                                  | 54,051                           |
| School Breakfast Program   | 10.553                 | 310400860995                                 | -                                  | <u>165,801</u>                   |
| National School Lunch Program  | 10.555                 | 310400860995                                 | -                                  | <u>219,852</u>                   |
| Total Child Nutrition Cluster  |                        |  | -                                  | <u>219,852</u>                   |
| Total U.S. Department of Agriculture   |                        |  | -                                  | <u>219,852</u>                   |
| Total Expenditures of Federal Awards   |                        |  | \$ -                               | \$ <u>1,071,633</u>              |

See independent auditors' report and notes to schedule of expenditures of federal awards

## **East Harlem Scholars Academy Charter School**

Notes to Schedule of Expenditures of Federal Awards  
Year Ended June 30, 2020

### **1. Basis of Presentation**

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") includes the federal award activity of East Harlem Scholars Academy Charter School (the "School") under programs of the federal government for the year ended June 30, 2020. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the School, it is not intended to and does not present the financial position, changes in net assets or cash flows of the School.

### **2. Summary of Significant Accounting Policies**

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.

### **3. Indirect Cost Rate**

The School has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

**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  
East Harlem Scholars Academy 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 East Harlem Scholars Academy Charter School (the "School"), which comprise the statement of financial position as of June 30, 2020, 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 22, 2020.

**Internal Control Over Financial Reporting**

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

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

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

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the School's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **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.

*PKF O'Connor Davies, LLP*

October 22, 2020

**Report on Compliance for Each Major Federal Program and Report on Internal Control  
Over Compliance Required by the Uniform Guidance**

**Independent Auditors' Report**

**Board of Trustees  
East Harlem Scholars Academy Charter School**

**Report on Compliance for Each Major Federal Program**

We have audited East Harlem Scholars Academy Charter School's (the "School") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the School's major federal programs for the year ended June 30, 2020. The School's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

***Auditors' Responsibility***

Our responsibility is to express an opinion on compliance for each of the School's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the School's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the School's compliance.

***Opinion on Each Major Federal Program***

In our opinion, East Harlem Scholars Academy Charter School complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2020.

***Report on Internal Control over Compliance***

Management of the School is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the School's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the School's internal control over compliance.

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

Our consideration of internal control over compliance 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 compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

*PKF O'Connor Davies, LLP*

October 22, 2020

## East Harlem Scholars Academy

### Schedule of Findings and Questioned Costs Year Ended June 30, 2020

#### Section I - Summary of Auditors' Results

##### Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with U.S. GAAP: Unmodified  
Internal control over financial reporting:  
Material weakness(es) identified? \_\_\_\_\_ yes  X  no  
Significant deficiency(ies) identified? \_\_\_\_\_ yes  X  none reported  
Noncompliance material to financial statements noted? \_\_\_\_\_ yes  X  no

##### Federal Awards

Internal control over major federal programs:  
Material weakness(es) identified? \_\_\_\_\_ yes  X  no  
Significant deficiency(ies) identified? \_\_\_\_\_ yes  X  none reported  
Type of auditors' report issued on compliance for major federal programs: Unmodified  
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? \_\_\_\_\_ yes  X  no

Identification of major federal programs:

| CFDA Numbers | Name of Federal Programs or Clusters   |
|--------------|--|
| 84.282M      | The Expansion and Replication of the East Harlem Scholars Academic Model Charter Schools |

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000  
Auditee qualified as low-risk auditee?  X  yes \_\_\_\_\_ no

#### Section II – Financial Statement Findings

During our audit, we noted no material findings for the year ended June 30, 2020.

#### Section III – Federal Award Findings and Questioned Costs

During our audit, we noted no material instances of noncompliance and none of the costs tested which were reported in the federal financially assisted programs are questioned or recommended to be disallowed.

#### Section IV - Prior Year's Findings

There were no prior year audit findings.