

East Harlem Scholars Academy Charter School

Financial Statements

June 30, 2025 and 2024

Independent Auditors' Report

Board of Trustees
East Harlem Scholars Academy Charter School

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of East Harlem Scholars Academy Charter School (the "School") (a nonprofit organization), which comprise the statements of financial position as of June 30, 2025 and 2024, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the School as of June 30, 2025 and 2024, 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.

Basis for Opinion

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. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the School and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the School's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the School's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

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, 2025 on pages 20 through 22 are presented for purposes of additional analysis and are 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 30, 2025 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 30, 2025

East Harlem Scholars Academy Charter School

Statements of Financial Position

	June 30,	
	2025	2024
ASSETS		
Current Assets		
Cash	\$ 3,049,473	\$ 3,200,302
Grants and contracts receivable	1,198,442	1,816,539
Due from East Harlem Tutorial Program	175,792	-
Prepaid expenses	155,185	576,252
Total Current Assets	4,578,892	5,593,093
Finance right-of-use assets, net	148,554,905	52,654,843
Restricted cash	150,022	150,007
Property and equipment, net	940,847	846,663
	<u>\$ 154,224,666</u>	<u>\$ 59,244,606</u>
LIABILITIES AND NET ASSETS (DEFICIT)		
Current Liabilities		
Accounts payable and accrued expenses	\$ 1,499,751	\$ 1,654,635
Due to East Harlem Tutorial Program	-	460,163
Refundable advances	450,796	290,724
Total Current Liabilities	1,950,547	2,405,522
Finance lease liabilities	156,520,860	56,102,656
Total Liabilities	158,471,407	58,508,178
Net assets (deficit), without donor restrictions	<u>(4,246,741)</u>	<u>736,428</u>
	<u>\$ 154,224,666</u>	<u>\$ 59,244,606</u>

See notes to financial statements

East Harlem Scholars Academy Charter School

Statements of Activities

	Year Ended June 30,	
	2025	2024
REVENUE AND SUPPORT		
Public School District		
State and local per pupil operating revenue	\$ 26,347,643	\$ 26,098,113
Universal pre-kindergarten	572,268	526,932
Lease assistance	3,794,896	2,920,621
Government grants and contracts	1,585,553	2,302,342
Contributions	74,999	69,223
Contributions from related party	3,594,899	2,240,000
Other income	124,993	353,497
Total Revenue and Support	<u>36,095,251</u>	<u>34,510,728</u>
EXPENSES		
Program Services		
General education	27,741,720	25,097,841
Special education	7,371,366	6,802,949
Pre-kindergarten	586,793	783,591
Supplemental education	56,776	277,949
Total Program Services	<u>35,756,655</u>	<u>32,962,330</u>
Supporting Services		
Management and general	4,436,488	3,684,183
Fundraising	885,277	787,319
Total Expenses	<u>41,078,420</u>	<u>37,433,832</u>
Change in Net Assets (Deficit)	(4,983,169)	(2,923,104)
NET ASSETS (DEFICIT), WITHOUT DONOR RESTRICTIONS		
Beginning of year	<u>736,428</u>	<u>3,659,532</u>
End of year	<u>\$ (4,246,741)</u>	<u>\$ 736,428</u>

See notes to financial statements

East Harlem Scholars Academy Charter School

Statement of Functional Expenses Year Ended June 30, 2025

	No. of Positions	Program Services				Management and General	Fundraising	Total
		General Education	Special Education	Pre- Kindergarten	Supplemental Education			
Personnel Services Costs								
Administrative staff personnel	64	\$ 3,168,439	\$ 1,171,922	\$ 82,012	\$ -	\$ 4,422,373	\$ 797,732	\$ 5,220,105
Instructional personnel	162	10,353,621	2,866,444	306,527	-	13,526,592	-	13,526,592
Total Personnel Services Costs	226	13,522,060	4,038,366	388,539	-	17,948,965	797,732	18,746,697
Fringe benefits and payroll taxes		2,646,971	789,402	76,978	-	3,513,351	158,143	3,671,494
Retirement		82,983	26,005	1,251	-	110,239	10,974	121,213
Legal services		-	-	-	-	-	10,746	10,746
Accounting and audit services		-	-	-	-	-	547,630	547,630
Other professional and consulting services		1,279,775	519,855	8,462	-	1,808,092	1,666,617	4,357,692
Building and land rent/lease		6,768,364	1,136,744	88,371	-	7,993,479	1,002,089	8,995,568
Repairs and maintenance		602,210	117,071	8,084	-	727,365	87,428	814,793
Insurance		178,471	35,254	1,672	-	215,397	18,955	234,352
Utilities		320,872	59,856	4,272	-	385,000	46,858	431,858
Supplies and materials		485,849	134,552	-	-	620,401	-	620,401
Equipment and furnishings		194,483	62,343	2,950	-	259,776	25,568	285,344
Staff development		347,008	96,121	-	-	443,129	-	443,129
Marketing and recruitment		48,956	13,567	-	-	62,523	-	62,523
Technology		96,237	29,025	1,435	-	126,697	12,851	139,548
Food service		509,170	142,028	-	-	651,198	-	651,198
Student services		264,841	73,774	-	56,776	395,391	-	395,391
Office expenses		75,336	22,096	1,114	-	98,546	13,565	114,405
Depreciation and amortization		263,789	60,189	3,665	-	327,643	37,329	364,972
Dues and memberships		39,366	10,927	-	-	50,293	-	50,293
Other expenses		14,979	4,191	-	-	19,170	3	19,173
Total Expenses		\$ 27,741,720	\$ 7,371,366	\$ 586,793	\$ 56,776	\$ 35,756,655	\$ 4,436,488	\$ 41,078,420

See notes to financial statements

East Harlem Scholars Academy Charter School

Statement of Functional Expenses Year Ended June 30, 2024

	No. of Positions	Program Services					Management and General	Fundraising	Total
		General Education	Special Education	Pre- Kindergarten	Supplemental Education	Total Program Services			
Personnel Services Costs									
Administrative staff personnel	81	\$ 4,111,277	\$ 1,077,961	\$ 131,351	\$ -	\$ 5,320,589	\$ 774,542	\$ -	\$ 6,095,131
Instructional personnel	182	9,863,890	2,714,725	331,812	-	12,910,427	-	-	12,910,427
Total Personnel Services Costs	263	13,975,167	3,792,686	463,163	-	18,231,016	774,542	-	19,005,558
Fringe benefits and payroll taxes		3,016,162	826,601	102,775	-	3,945,538	121,967	-	4,067,505
Retirement		122,263	26,610	4,690	-	153,563	15,187	-	168,750
Legal services		-	-	-	-	-	16,340	-	16,340
Accounting and audit services		-	-	-	-	-	540,270	-	540,270
Other professional and consulting services		1,148,265	429,485	20,208	-	1,597,958	1,473,810	780,763	3,852,531
Building and land rent/lease		3,297,969	822,675	130,371	-	4,251,015	520,564	-	4,771,579
Repairs and maintenance		607,006	134,939	23,392	-	765,337	78,389	-	843,726
Insurance		150,332	37,486	4,055	-	191,873	16,191	-	208,064
Utilities		202,746	48,810	7,950	-	259,506	30,137	-	289,643
Supplies and materials		379,056	105,732	-	-	484,788	-	-	484,788
Equipment and furnishings		251,936	52,098	9,566	-	313,600	28,403	-	342,003
Staff development		493,483	137,755	-	-	631,238	-	-	631,238
Marketing and recruitment		137,374	38,221	-	-	175,595	-	-	175,595
Technology		64,438	13,734	2,461	-	80,633	7,697	-	88,330
Food service		446,701	129,863	-	-	576,564	-	-	576,564
Student services		356,441	102,339	-	277,949	736,729	-	-	736,729
Office expenses		143,487	30,740	5,487	-	179,714	27,140	6,556	213,410
Depreciation and amortization		244,013	56,168	9,473	-	309,654	33,546	-	343,200
Dues and memberships		34,772	9,686	-	-	44,458	-	-	44,458
Other expenses		26,230	7,321	-	-	33,551	-	-	33,551
Total Expenses		\$ 25,097,841	\$ 6,802,949	\$ 783,591	\$ 277,949	\$ 32,962,330	\$ 3,684,183	\$ 787,319	\$ 37,433,832

See notes to financial statements

East Harlem Scholars Academy Charter School

Statements of Cash Flows

	Year Ended June 30,	
	2025	2024
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets (deficit)	\$ (4,983,169)	\$ (2,923,104)
Adjustments to reconcile change in net assets (deficit) to net cash from operating activities		
Depreciation and amortization	364,972	343,200
Amortization of operating right-of-use asset	-	1,443,732
Amortization of finance right-of-use asset	3,576,774	1,385,654
Accretion of finance lease liabilities	5,218,242	1,902,640
Changes in operating assets and liabilities		
Grants and contracts receivable	618,097	491,121
Due from East Harlem Tutorial Program	(175,792)	182,975
Prepaid expenses	421,067	(172,560)
Operating lease liabilities	-	(1,447,603)
Accounts payable and accrued expenses	(154,884)	(84,368)
Due to East Harlem Tutorial Program	(460,163)	460,163
Refundable advances	160,072	223,003
Net Cash from Operating Activities	4,585,216	1,804,853
CASH FLOWS FROM INVESTING ACTIVITY		
Purchases of property and equipment	(459,156)	(316,656)
CASH FLOWS FROM FINANCING ACTIVITY		
Principal payments on finance lease liabilities	(4,276,874)	(1,580,214)
Net Change in Cash and Restricted Cash	(150,814)	(92,017)
CASH AND RESTRICTED CASH		
Beginning of year	3,350,309	3,442,326
End of year	\$ 3,199,495	\$ 3,350,309
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid for interest	\$ 3,849,940	\$ 1,580,124

See notes to financial statements

East Harlem Scholars Academy Charter School

Notes to Financial Statements

June 30, 2025 and 2024

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” or the “School”) 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 three renewals to the Corporation’s charter. The Corporation’s charter expires on July 31, 2028. 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 as of fiscal 2023 it served universal pre-kindergarten (“UPK”) through twelfth 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 ninth – twelfth. Scholars provided education to approximately 35 students in Universal Pre-Kindergarten and 870 students in kindergarten through twelfth grades during the 2024-2025 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 expanded each year until it served 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 II provided education to approximately 14 students in Universal Pre-Kindergarten and 336 students in kindergarten through eighth grades during the 2024-2025 academic year.

East Harlem Scholars Academy Charter School

Notes to Financial Statements

June 30, 2025 and 2024

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 contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and support and expenses during the reporting period. Actual results could differ from those estimates.

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, 2025 and 2024.

East Harlem Scholars Academy Charter School

Notes to Financial Statements

June 30, 2025 and 2024

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

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.

The following table provides a reconciliation of cash and restricted cash reported within the statements of financial position to the amounts presented in the statements of cash flows as of June 30:

	2025	2024
Cash	\$ 3,049,473	\$ 3,200,302
Restricted cash	150,022	150,007
	<u>\$ 3,199,495</u>	<u>\$ 3,350,309</u>

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, 2025 and 2024.

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.

East Harlem Scholars Academy Charter School

Notes to Financial Statements

June 30, 2025 and 2024

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

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.

Functional Expenses

Expenses that can be directly identified with the program or supporting service to which they relate are charged accordingly. Other expenses, such as personnel services costs, fringe benefits and payroll taxes, other professional and consulting services, and building and land rent and lease 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.

East Harlem Scholars Academy Charter School

Notes to Financial Statements

June 30, 2025 and 2024

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

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, 2025 and 2024 was \$62,522 and \$175,595.

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, 2022.

Leases

The School accounts for leases under ASC Topic 842. The School determines if an arrangement is a lease at inception. Operating and finance leases are included in operating and finance lease right-of-use ("ROU") assets and lease liabilities in the statements of financial position. The School made the short-term lease election for leases with an initial term of less than 12 months. ROU assets represent the right to use an underlying asset for the lease term and lease liabilities represent the obligation to make lease payments arising from the lease. Operating and finance lease ROU assets and liabilities are recognized at the lease commencement date based on the present value of lease payments over the lease term. When leases do not provide an implicit borrowing rate, the School uses a risk-free rate based on the information available at the commencement date in determining the present value of lease payments. The operating and finance lease ROU assets includes any lease payments made and excludes lease incentives. The lease terms may include options to extend the lease and when it is reasonably certain that the School will exercise that option, such amounts are included in ROU assets and lease liabilities. Lease expense for lease payments is recognized on a straight-line basis over the lease term. The School's lease agreements do not contain any material residual value guarantees or material restrictive covenants. The School has lease agreements with lease and non-lease components, which are generally accounted for separately.

Reclassification

Certain 2024 accounts have been reclassified to conform to the 2025 financial statement presentation. The reclassifications had no effect on previously reported change in net assets or net assets.

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 30, 2025.

East Harlem Scholars Academy Charter School

Notes to Financial Statements

June 30, 2025 and 2024

3. Concentration of Credit Risk and Revenue

The School's financial instruments that are potentially exposed to concentration of credit risk consist of cash. The School places its cash 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. 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, 2025 and 2024, approximately \$2,950,000 and \$3,095,000 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, special education, lease assistance, and Universal Pre-Kindergarten provided to the School was 85% and 84% of total revenue for the years ended June 30, 2025 and 2024. The School is dependent upon this level of funding in order to continue its operations.

4. Grants and Accounts Receivable

At June 30, 2025 and 2024, grants and contracts receivable primarily 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.

5. Property and Equipment

Property and equipment consist of the following at June 30:

	2025	2024
Computers and other equipment	\$ 798,900	\$ 1,801,758
Furniture and fixtures	551,174	1,573,922
Leasehold improvements	660,720	600,177
Vehicles	21,000	21,000
	<u>2,031,794</u>	<u>3,996,857</u>
Accumulated depreciation and amortization	<u>(1,090,947)</u>	<u>(3,150,194)</u>
	<u>\$ 940,847</u>	<u>\$ 846,663</u>

Assets with a cost basis and accumulated depreciation totaling \$2,424,219 were disposed of during the year ended June 30, 2025.

East Harlem Scholars Academy Charter School

Notes to Financial Statements June 30, 2025 and 2024

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:

	2025	2024
Cash	\$ 3,049,473	\$ 3,200,302
Grants and contracts receivable	1,198,442	1,816,539
Due from East Harlem Tutorial Program, net	175,792	-
	<u>\$ 4,423,707</u>	<u>\$ 5,016,841</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 until it is required for operational use. 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. During the years ended June 30, 2025 and 2024, shared operating costs were allocated to the School based on a flat fee of 12% of per pupil and special education revenues projected in the budget for the relevant fiscal year. The total budgeted amount of the cost sharing agreement for the years ended June 30, 2025 and 2024 was \$3,531,934 and \$3,123,050. The total amount of expenses under this agreement for the years ended June 30, 2025 and 2024 was \$3,531,934 and \$3,123,050, which is included in other professional and consulting services on the accompanying statements of functional expenses.

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, 2025 and 2024 was \$622,523 and \$1,428,115, which is included in various expense accounts on the accompanying statements of functional expenses.

East Harlem Scholars Academy Charter School

Notes to Financial Statements

June 30, 2025 and 2024

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

During the years ended June 30, 2025 and 2024, grants from EHTP amounted to \$3,594,899 and \$2,240,000, which is included in contributions from related party on the accompanying statements of activities. At June 30, 2025 and 2024, grants receivable from EHTP amounted to \$50,216 and \$12,658, and are included within due from/to East Harlem Tutorial Program on the accompanying statements of financial position. Net balance due from EHTP at June 30, 2025 totaled \$175,792. Net balance due to EHTP at June 30, 2024 totaled \$460,163.

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. 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 the School has no economic interest in EHTP 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 9). 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, 2025 and 2024, the School incurred \$6,753 and \$7,579 in overtime related costs.

9. 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 East Harlem Center, LLC ("EHC"), a wholly owned subsidiary of EHTP. 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 had a term of 30 years commencing on September 1, 2016. The School determined the lease to be a finance lease. On December 15, 2022, the lease was amended to terminate on June 30, 2062.

Effective July 1, 2022, the School entered into an operating license agreement with El Museo del Barrio for gymnasium and office space at 1230-37 Fifth Avenue for a term of two years terminating on June 30, 2024. Effective July 1, 2022, the School entered into an operating sublease agreement with El Museo del Barrio for classroom space at 1 East 104th Street for a term of two years terminating on June 30, 2024. The School moved into new space at 342-346 East 104th Street, New York, NY in August 2024.

East Harlem Scholars Academy Charter School

Notes to Financial Statements

June 30, 2025 and 2024

9. Commitments (*continued*)

On August 30, 2018, an agreement to lease the land and buildings located at 342-346 East 104th Street, New York, NY, was executed between the School and East Harlem HS LLC ("EHS"), a wholly owned subsidiary of EHTP. On December 15, 2022, the lease was amended for rent payments to commence on the earlier of the date that the School takes possession of the premises and September 1, 2024, and to terminate on June 30, 2062. The School took possession of the premises on August 21, 2024. The School determined the lease to be a finance lease.

Finance right of use assets consist of the following at June 30:

	2025	2024
Right-of-use assets	\$ 154,713,049	\$ 55,236,213
Accumulated amortization	(6,158,144)	(2,581,370)
	<u>\$ 148,554,905</u>	<u>\$ 52,654,843</u>
Weighted average remaining lease term (years)	37.00	38.00
Weighted average discount rate	3.96%	3.41%

Future minimum finance lease payments are as follows for years ending June 30:

2026	\$ 4,185,987
2027	5,060,856
2028	5,457,984
2029	5,621,724
2030	5,790,372
Thereafter	313,130,652
Total minimum lease payments	<u>339,247,575</u>
Present value discount	(182,726,715)
Present value of finance lease liabilities	<u>\$ 156,520,860</u>

	2025	2024
Supplemental cash flows		
Operating cash flows from finance leases	\$ 3,849,940	\$ 1,580,124
Financing cash flows from finance leases	495,809	-
Operating cash flows from operating leases	-	1,468,032
Change in finance right-of-use asset recognized due to new lease liabilities	99,476,836	-

East Harlem Scholars Academy Charter School

Notes to Financial Statements

June 30, 2025 and 2024

9. Commitments (*continued*)

Components of lease cost are as follows for the years ended June 30, 2025 and 2024 and are included in building and land rent/lease expense within the accompanying statements of functional expenses:

	2025	2024
Finance amortization cost	\$ 3,576,774	\$ 1,385,654
Finance interest cost	5,418,794	1,902,550
Operating lease cost	-	1,464,163
Variable lease cost	-	19,212
	<u>\$ 8,995,568</u>	<u>\$ 4,771,579</u>

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:

2026	\$ 25,500
2027	25,500
2028	25,500
2029	25,500
2030	25,500
Thereafter	427,068
	<u>\$ 554,568</u>

Rental income under this sublease for each of the years ended June 30, 2025 and 2024 was \$25,575 and \$24,600, which is included in other income on the accompanying statements of activities.

10. 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.

The School entered into contractual relationships with certain governmental funding sources. The governmental agencies may request a 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.

East Harlem Scholars Academy Charter School

Notes to Financial Statements June 30, 2025 and 2024

11. Employee Benefit Plan

The School maintains a defined contribution plan qualified under Internal Revenue Code 403(b), for the benefit of its eligible employees. The School elects to make contributions to the plan on a discretionary basis. The School contributed \$121,213 and \$168,750 to the plan for the years ended June 30, 2025 and 2024.

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East Harlem Scholars Academy Charter School

Supplementary Information

June 30, 2025

East Harlem Scholars Academy Charter School

Schedule of Activities by School Year Ended June 30, 2025

	East Harlem Scholars Academy Charter School	East Harlem Scholars Academy Charter School II	Total
REVENUE AND SUPPORT			
Public School District			
State and local per pupil operating revenue	\$ 19,020,456	\$ 7,327,187	\$ 26,347,643
Universal pre-kindergarten	436,506	135,762	572,268
Lease assistance	3,794,896	-	3,794,896
Government grants and contracts	1,276,907	308,646	1,585,553
Contributions	54,687	20,312	74,999
Contributions from related party	2,244,899	1,350,000	3,594,899
Other income	<u>104,753</u>	<u>20,240</u>	<u>124,993</u>
Total Revenue and Support	<u>26,933,104</u>	<u>9,162,147</u>	<u>36,095,251</u>
EXPENSES			
Program Services			
General education	21,847,018	5,894,702	27,741,720
Special education	5,336,148	2,035,218	7,371,366
Pre-kindergarten	527,175	59,618	586,793
Supplemental education	<u>52,567</u>	<u>4,209</u>	<u>56,776</u>
Total Program Services	27,762,908	7,993,747	35,756,655
Supporting Services			
Management and general	3,630,536	805,952	4,436,488
Fundraising	<u>619,572</u>	<u>265,705</u>	<u>885,277</u>
Total Expenses	<u>32,013,016</u>	<u>9,065,404</u>	<u>41,078,420</u>
Change in Net Assets (Deficit)	(5,079,912)	96,743	(4,983,169)
NET ASSETS (DEFICIT), WITHOUT DONOR RESTRICTIONS			
Beginning of year	<u>1,035,964</u>	<u>(299,536)</u>	<u>736,428</u>
End of year	<u>\$ (4,043,948)</u>	<u>\$ (202,793)</u>	<u>\$ (4,246,741)</u>

See independent auditors' report

East Harlem Scholars Academy Charter School

Schedule of Functional Expenses East Harlem Scholars Academy Charter School Year Ended June 30, 2025

	No. of Positions	Program Services				Management and General	Fundraising	Total
		General Education	Special Education	Pre- Kindergarten	Supplemental Education	Total Program Services		
Personnel Services Costs								
Administrative staff personnel	47	\$ 2,363,802	\$ 749,636	\$ 72,817	\$ -	\$ 3,186,255	\$ 689,975	\$ 3,876,230
Instructional personnel	114	6,934,949	1,934,440	271,020	-	9,140,409	-	9,140,409
Total Personnel Services Costs	161	9,298,751	2,684,076	343,837	-	12,326,664	689,975	13,016,639
Fringe benefits and payroll taxes		1,855,101	535,473	68,596	-	2,459,170	138,142	2,597,312
Retirement		60,722	10,198	793	-	71,713	8,990	80,703
Legal services		-	-	-	-	-	7,435	7,435
Accounting and audit services		-	-	-	-	-	379,217	379,217
Other professional and consulting services		937,732	321,570	5,792	-	1,265,094	1,177,487	3,060,253
Building and land rent/lease		6,768,364	1,136,744	88,371	-	7,993,479	1,002,089	8,995,568
Repairs and maintenance		572,823	96,205	7,479	-	676,507	84,809	761,316
Insurance		128,027	21,502	1,672	-	151,201	18,955	170,156
Utilities		309,867	52,042	4,046	-	365,955	45,877	411,832
Supplies and materials		332,224	92,671	-	-	424,895	-	424,895
Equipment and furnishings		139,734	23,468	1,824	-	165,026	20,688	185,714
Staff development		240,345	67,042	-	-	307,387	-	307,387
Marketing and recruitment		34,936	9,745	-	-	44,681	-	44,681
Technology		72,513	12,179	947	-	85,639	10,736	96,375
Food service		509,110	142,012	-	-	651,122	-	651,122
Student services		248,821	69,406	-	52,567	370,794	-	370,794
Office expenses		57,917	9,727	756	-	68,400	11,419	81,719
Depreciation and amortization		234,485	39,382	3,062	-	276,929	34,717	311,646
Dues and memberships		30,797	8,591	-	-	39,388	-	39,388
Other expenses		14,749	4,115	-	-	18,864	-	18,864
Total Expenses East Harlem Scholars Academy Charter School		\$ 21,847,018	\$ 5,336,148	\$ 527,175	\$ 52,567	\$ 27,762,908	\$ 3,630,536	\$ 32,013,016

See independent auditors' report

East Harlem Scholars Academy Charter School

Schedule of Functional Expenses East Harlem Scholars Academy Charter School II Year Ended June 30, 2025

	No. of Positions	Program Services				Management and General	Fundraising	Total
		General Education	Special Education	Pre- Kindergarten	Supplemental Education			
Personnel Services Costs								
Administrative staff personnel	17	\$ 804,637	\$ 422,286	\$ 9,195	\$ -	\$ 1,236,118	\$ 107,757	\$ 1,343,875
Instructional personnel	48	3,418,672	932,004	35,507	-	4,386,183	-	4,386,183
Total Personnel Services Costs	65	4,223,309	1,354,290	44,702	-	5,622,301	107,757	5,730,058
Fringe benefits and payroll taxes		791,870	253,929	8,382	-	1,054,181	20,001	1,074,182
Retirement		22,261	15,807	458	-	38,526	1,984	40,510
Legal services		-	-	-	-	-	3,311	3,311
Accounting and audit services		-	-	-	-	-	168,413	168,413
Other professional and consulting services		342,043	198,285	2,670	-	542,998	489,130	1,297,439
Repairs and maintenance		29,387	20,866	605	-	50,858	2,619	53,477
Insurance		50,444	13,752	-	-	64,196	-	64,196
Utilities		11,005	7,814	226	-	19,045	981	20,026
Supplies and materials		153,625	41,881	-	-	195,506	-	195,506
Equipment and furnishings		54,749	38,875	1,126	-	94,750	4,880	99,630
Staff development		106,663	29,079	-	-	135,742	-	135,742
Marketing and recruitment		14,020	3,822	-	-	17,842	-	17,842
Technology		23,724	16,846	488	-	41,058	2,115	43,173
Food service		60	16	-	-	76	-	76
Student services		16,020	4,368	-	4,209	24,597	-	24,597
Office expenses		17,419	12,369	358	-	30,146	2,146	32,686
Depreciation and amortization		29,304	20,807	603	-	50,714	2,612	53,326
Dues and memberships		8,569	2,336	-	-	10,905	-	10,905
Other expenses		230	76	-	-	306	3	309
Total Expenses East Harlem Scholars Academy Charter School II		5,894,702	2,035,218	59,618	4,209	7,993,747	805,952	9,065,404
Total Expenses East Harlem Scholars Academy Charter School		<u>21,847,018</u>	<u>5,336,148</u>	<u>527,175</u>	<u>52,567</u>	<u>27,762,908</u>	<u>3,630,536</u>	<u>32,013,016</u>
Total Expenses		<u>\$ 27,741,720</u>	<u>\$ 7,371,366</u>	<u>\$ 586,793</u>	<u>\$ 56,776</u>	<u>\$ 35,756,655</u>	<u>\$ 4,436,488</u>	<u>\$ 41,078,420</u>

See independent auditors' report

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, 2025, 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 30, 2025.

Report on 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") as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control. Accordingly, we do not express an opinion on the effectiveness of the School's internal control.

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

Report on 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 financial statements. 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 30, 2025