

HARLEM VILLAGE ACADEMY LEADERSHIP CHARTER SCHOOL
(A Not-For-Profit Corporation)

FINANCIAL STATEMENTS

JUNE 30, 2013

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(A Not-For-Profit Corporation)
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JUNE 30, 2012

CONTENTS

	<u>PAGE</u>
INDEPENDENT AUDITORS' REPORT	1-2
FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION:	
Statement of financial position	3
Statement of activities	4
Statement of cash flows	5
Notes to the financial statements	6 - 10
Independent auditors' report on supplementary information	11
Schedule of functional expenses	12
INDEPENDENT AUDITORS' 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	13 - 14

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INDEPENDENT AUDITORS' REPORT

TO THE BOARD OF TRUSTEES OF
HARLEM VILLAGE ACADEMY LEADERSHIP CHARTER SCHOOL

Report on the Financial Statements

We have audited the accompanying financial statements of Harlem Village Academy Leadership Charter School (the "School") (a not-for-profit corporation), which comprise the statement of financial position as of June 30, 2013, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's 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 the School as of June 30, 2013, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 19, 2013, 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 to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control over financial reporting and compliance.


FRUCHTER ROSEN & COMPANY, P.C.
Certified Public Accountants

New York, New York
September 19, 2013

HARLEM VILLAGE ACADEMY LEADERSHIP CHARTER SCHOOL
(A Not-For-Profit Corporation)
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2013

ASSETS	
Current assets:	
Cash and cash equivalents	\$ 92,254
Grants and contracts receivable	67,798
Prepaid expenses	<u>40,984</u>
Total current assets	<u>201,036</u>
Property and equipment, net of accumulated depreciation and amortization of \$402,761	
	897,503
Note receivable - related party	
	<u>750,000</u>
Total other assets	<u>1,647,503</u>
TOTAL ASSETS	<u><u>\$ 1,848,539</u></u>
LIABILITIES AND UNRESTRICTED NET ASSETS	
Current liabilities:	
Accounts payable and accrued expenses	\$ 107,256
Accrued payroll and payroll taxes	351,125
Due to related parties	96,053
Refundable advances	<u>1,727</u>
Total current liabilities	556,161
Unrestricted net assets	<u>1,292,378</u>
TOTAL LIABILITIES AND UNRESTRICTED NET ASSETS	<u><u>\$ 1,848,539</u></u>

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

HARLEM VILLAGE ACADEMY LEADERSHIP CHARTER SCHOOL
(A Not-For-Profit Corporation)
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2013

Revenue and support:	
State and local per pupil operating revenue	\$ 8,184,953
Federal grants	244,398
State and city grants	43,807
Grant from network	710,000
Interest and other income	<u>2,154</u>
Total revenue and support	<u>9,185,312</u>
Expenses:	
Program services:	
Regular education	7,348,176
Special education	381,213
Supplemental education	<u>647,605</u>
Total program services	8,376,994
Supporting services:	
Management and general	<u>796,341</u>
Total expenses	<u>9,173,335</u>
Change in unrestricted net assets	11,977
Unrestricted net assets - beginning of year	<u>1,280,401</u>
Unrestricted net assets - end of year	<u><u>\$ 1,292,378</u></u>

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

HARLEM VILLAGE ACADEMY LEADERSHIP CHARTER SCHOOL
(A Not-For-Profit Corporation)
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2013

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in unrestricted net assets	\$ 11,977
Adjustments to reconcile change in unrestricted net assets provided by operating activities:	
Depreciation and amortization	219,849
Changes in certain assets and liabilities:	
(Increase) in grants and contracts receivable	(36,202)
Decrease in prepaid expenses	5,262
Decrease in due from related parties	278,319
(Decrease) in accounts payable and accrued expenses	(7,754)
Increase in accrued payroll and payroll taxes	85,768
Increase in due to related parties	96,053
(Decrease) in refundable advances	(46)
NET CASH PROVIDED BY OPERATING ACTIVITIES	653,226
CASH FLOWS FROM INVESTING ACTIVITY	
Purchases of property and equipment	(910,859)
NET (DECREASE) IN CASH AND CASH EQUIVALENTS	(257,633)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	349,887
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 92,254

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

HARLEM VILLAGE ACADEMY LEADERSHIP CHARTER SCHOOL
(A Not-For-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 1 - PRINCIPAL BUSINESS ACTIVITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization

Harlem Village Academy Leadership Charter School (the "School") is a New York State, not-for-profit corporation and was incorporated on September 13, 2002 to operate a charter school pursuant to Article 56 of the Education Law of the State of New York. The School is dedicated to providing a high quality college preparatory education to primarily disadvantaged students. Classes commenced in East Harlem, New York, in September 2005 and the School provided education to approximately 567 students in grades kindergarden and five through twelve during the 2012-2013 school year.

The Board of Trustees of the State University of New York originally approved the application for the School on September 13, 2002. The School has periodically applied for and received renewals of its charter. During the year ended June 30, 2011, the State University of Trustees granted the School an additional renewal for a period of five years, extending the charter through July 31, 2015. The School expects to continue to apply for renewals as needed, consistent with standard New York charter school practice.

Tax Status

The School is exempt from Federal income tax under Section 501(a) of the Internal Revenue Code as a School described in Section 501(c)(3) and a similar provision under New York State income tax laws. The School has also been classified as an entity that is not a private foundation within the meaning of Section 509(a) and qualifies for deductible contributions as provided in section 170(b)(1)(A)(ii). The School is subject to income taxes only on net unrelated business income. The School did not have net unrelated business income for the year ended June 30, 2013.

The School's accounting policy provides that a tax expense or benefit from an uncertain tax position may be recognized when it is more likely than not that the position will be sustained upon examination, including resolutions of any related appeals or litigation processes, based on the technical merits. The School has no uncertain tax position resulting in an accrual of tax expense or benefit.

IRS Forms 990 filed by the School are subject to examination by the Internal Revenue Service up to three years from the extended due date of each return. Forms 990 filed by the School are no longer subject to examination for the fiscal years ended June 30, 2009, and prior.

HARLEM VILLAGE ACADEMY LEADERSHIP CHARTER SCHOOL
(A Not-For-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 1 - PRINCIPAL BUSINESS ACTIVITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation

Financial statement presentation follows the requirements of the Financial Accounting Standards Board (“FASB”) in its Accounting Standards Codification (“ASC”) 958-205 Under ASC 958-205; the School is required to report information regarding its financial position and activities according to three classes of net assets; unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. These net assets classifications are described as follows:

Unrestricted

Net assets of the School whose use has not been restricted by an outside grantor or by law are available for any use in carrying out the operations of the School.

Temporarily Restricted

Net assets of the School whose use has been limited by grantor-imposed stipulations that either expire with the passage of time or can be fulfilled and removed by actions of the School. When such stipulations end or are fulfilled, such temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities and changes in net assets, as net assets released from restrictions.

Permanently Restricted

Net assets of the School are those whose use has been permanently limited by grantor-imposed restrictions with no time restriction. Such assets include contributions required to be invested in perpetuity, the income from which is available to support charitable purposes designated by the grantors.

The School had no temporarily or permanently restricted net assets at June 30, 2013.

Revenue and Support

Contributions are recognized when the donor makes a promise to give to the School that is, in substance, unconditional. Grants and other contributions of cash are reported as temporarily restricted support if they are received with donor stipulations. Restricted contributions and grants that are made to support the School’s current year activities are recorded as unrestricted revenue. Contributions of assets other than cash are recorded at their estimated fair value.

Revenue from the state and local government 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 agencies.

HARLEM VILLAGE ACADEMY LEADERSHIP CHARTER SCHOOL
(A Not-For-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 1 - PRINCIPAL BUSINESS ACTIVITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Cash and Cash Equivalents

For the purpose of the statement of cash flows, the School considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Concentration of Credit Risk

Financial instruments which potentially subject the School to concentrations of credit risk are cash and cash equivalents. The School places its cash and cash equivalents on deposit in what it believes to be highly credited financial institutions. Cash balances may exceed the FDIC insured levels of \$250,000 per institution at various times during the year. The School believes that there is little risk in any losses and has not experienced any losses in such accounts.

Property and Equipment

Purchased property and equipment are recorded at cost. Maintenance and repairs are expensed as incurred. Depreciation and amortization is provided on the straight line method over the estimated useful lives as follows:

Equipment	3 years
Furniture and fixtures	5 years
Software	3 years
Leasehold improvements	useful life or related lease

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.

NOTE 2 - GRANTS AND CONTRACTS RECEIVABLE

Grants and contracts receivable consist of federal and city entitlements and grants. The School anticipates collecting these receivables before June 30, 2014.

HARLEM VILLAGE ACADEMY LEADERSHIP CHARTER SCHOOL
(A Not-For-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 3 - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following as of June 30, 2013:

Equipment	\$ 525,735
Furniture and fixtures	127,552
Software	3,999
Leasehold improvements	<u>642,978</u>
	1,300,264
Less: Accumulated depreciation and amortization	<u>(402,761)</u>
	<u>\$ 897,503</u>

Depreciation and amortization expense was \$219,849 for the year ended June 30, 2013. In addition, depreciation expense was allocated to the School from a related party in the amount of \$55,764 bringing total depreciation and amortization expense to \$275,613.

NOTE 4 - RELATED PARTY TRANSACTIONS

The School is an affiliate of Harlem Village Academies (the "Network"), a New York State not-for-profit corporation and Harlem Village Academy Charter School, a charter school with common management. The Network supports the School by providing educational and operating materials, training, financial support and other services. During the start up phase of the School, the Network received and disbursed funding for start up costs associated with the School.

On May 21, 2010, the School signed a promissory note for \$750,000 with the Network. The note was due May 31, 2013. The Board of Trustees approved an extension to September 30, 2015 (Repayment Date). If the note is repaid on or before the Repayment Date, there will be no interest accrued on the note. If the note is paid back after the Repayment Date, the Network shall pay interest at the lower of ten percent (10%) per annum or the maximum rate per annum permitted by applicable law on the outstanding principal amount of the note. The note may be repaid by the Network in whole or in part, without premium or penalty, at anytime upon five (5) days advance written notice to the School.

For operational efficiency and purchasing power, the School shares certain expenses with the Network and Harlem Village Academy Charter School. At June 30, 2013, the balance due to related parties was \$96,053; this balance consists of \$518,605 due to Harlem Village Academy Charter School and \$422,552 due from the Network.

During the year ended June 30, 2013, the Network granted \$710,000 to support the School's operations.

HARLEM VILLAGE ACADEMY LEADERSHIP CHARTER SCHOOL
(A Not-For-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 4 - RELATED PARTY TRANSACTIONS (Continued)

The Network, with partial funding through a grant from the New York City Department of Education (which grant is administered by the School Construction Authority or “SCA”), completed the building of a new school facility in August, 2012 to be used by both the School and Harlem Village Academy Charter School (the “Schools”). The High School opened in 2012. Civic Builders, a non-profit charter school developer, served as developer of the project under a development agreement with the Network. Upon conveyance of the school portion of the building to the SCA, the SCA will lease it to Civic Builders, which will sublease it to HVA 125 LLC, a Limited Liability Company in which the Network is the sole member. Under the sublease terms, the Schools that occupy the premises will be required to meet certain academic performance targets, which are less rigorous than the targets of the Schools’ authorizer. There is no rent, but the School will pay operating expenses and fund a replacement reserve. The lease and sublease will have at least a 30 year term, which may be extended by the Network under certain conditions.

NOTE 5 - CONTINGENCY

Certain grants and contracts may be subject to audit by the funding sources. Such audits might result in disallowances of costs submitted for reimbursements. Management is of the opinion that such cost disallowances, if any, will not have a material effect on the accompanying financial statements. Accordingly, no amounts have been provided in the accompanying financial statements for such potential claims.

NOTE 6 - REVENUE CONCENTRATION

The School receives a substantial portion of its support and revenue under a program from The New York City Department of Education. If this program were modified, reducing or eliminating these revenues, the School’s finances could be materially adversely affected.

NOTE 7 - FUNCTIONAL ALLOCATION OF EXPENSE

The costs of providing the various programs and other activities have been summarized on a functional basis. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

NOTE 8 - SUBSEQUENT EVENTS

The School has evaluated its subsequent events through September 19, 2013, the date that the accompanying financial statements were issued. The School has no material events requiring disclosure.

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INDEPENDENT AUDITORS' REPORT
ON SUPPLEMENTARY INFORMATION

TO THE BOARD OF TRUSTEES OF
HARLEM VILLAGE ACADEMY LEADERSHIP CHARTER SCHOOL

We have audited the financial statements of Harlem Village Academy Leadership Charter School as of and for the year ended June 30, 2013, and have issued our report thereon dated September 19, 2013, which contained an unmodified opinion on those financial statements. Our audit was performed for the purpose of forming an opinion on the financial statements as a whole. The schedule of functional expenses is presented for the 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.


FRUCHTER ROSEN & COMPANY, P.C.
Certified Public Accountants

New York, New York
September 19, 2013

HARLEM VILLAGE ACADEMY LEADERSHIP CHARTER SCHOOL
(A Not-For-Profit Corporation)
SCHEDULE OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2013

	Program Services			Management and General	Total
	Regular Education	Special Education	Supplemental Education		
Salaries and benefits	\$ 5,850,314	\$ 325,846	\$ 315,537	\$ 631,167	\$ 7,122,864
Consultants	-	500	-	35,404	35,904
Contracted services - Temporary	14,769	823	797	1,593	17,982
Audit fees	-	-	-	12,500	12,500
Legal fees	-	-	-	2,266	2,266
Books and curriculum materials	142,882	-	-	-	142,882
Recruiting and marketing	27,370	-	-	-	27,370
Student testing	66,356	-	-	-	66,356
Staff development	186,927	-	-	-	186,927
Field trips	-	-	88,522	-	88,522
After school activities	-	-	190,415	-	190,415
Supplies and materials	211,724	11,792	11,419	22,842	257,777
Printing and postage	18,299	1,019	987	1,975	22,280
Insurance	71,762	3,997	3,871	7,742	87,372
Telephone and communication	86,831	4,836	4,683	9,367	105,717
Repairs and maintenance	52,939	2,949	2,855	5,711	64,454
Facilities expense	246,301	13,718	13,284	26,572	299,875
Depreciation and amortization	226,373	12,608	12,209	24,423	275,613
Food and travel	12,604	-	-	8,722	21,326
Equipment and furniture	54,991	3,063	2,966	5,934	66,954
Technology costs	76,616	-	-	-	76,616
Miscellaneous	1,118	62	60	123	1,363
Total	\$ 7,348,176	\$ 381,213	\$ 647,605	\$ 796,341	\$ 9,173,335

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INDEPENDENT AUDITORS' 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

TO THE BOARD OF TRUSTEES OF
HARLEM VILLAGE ACADEMY LEADERSHIP CHARTER SCHOOL

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Harlem Village Academy Leadership Charter School (the "School"), which comprise the statement of financial position as of June 30, 2013, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated September 19, 2013.

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.

TO THE BOARD OF TRUSTEES OF
HARLEM VILLAGE ACADEMY LEADERSHIP CHARTER SCHOOL

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School's financial statements are free of 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 School's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.


FRUCHTER ROSEN & COMPANY, P.C.
Certified Public Accountants

New York, New York
September 19, 2013